INFLATIONARY MARKET CONTINUES ★

BUSINESS AND ECONOMICS

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JUARY 31, 1959

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Cover photo: President Eisenhower, before starting his State of the Union message, turns to wish a happy birthday to Vice President Nixon, and House Speaker Rayburn.

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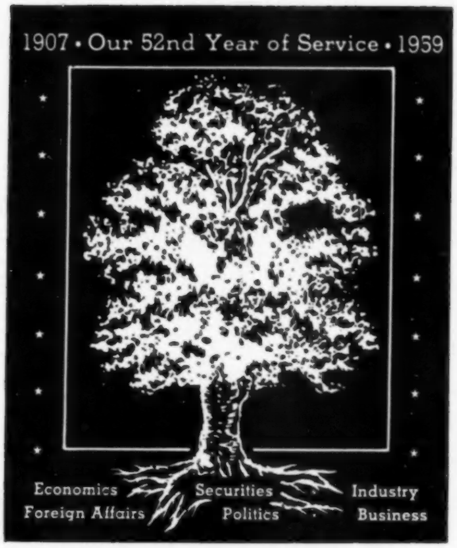
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

A CALL TO FISCAL RESPONSIBILITY . . . At a dinner of business publications writers on Friday, the Chairman of the Federal Reserve Board, William Mc Chesney Martin, was asked an important question, to which he gave an answer that should be of interest to every citizen of these United States. The question and answer follows:

Q. Mr. Chairman — Due no doubt to our loss last year of over $2 billion in gold, plus continued deficit spending to the tune of $12 billion, we hear disturbing reports about a growing distrust around the world in future stability of the American dollar. Can we continue on our current financial course without losing face both as a fiscal and as a moral force?

A. My own experience indicates that the doubts of our friends abroad relate not to this country's ability but to its will and moral stamina. Overcoming these doubts requires continuingly responsible conduct of our affairs rather than a flurry of dramatic actions. The problem can be stated simply: If American goods are priced out of world markets, the result will be a decline in business and employment at home, attended by great social hardship, and a weakening of our position in world affairs, attended by vulnerability to hostile forces. Fortunately the solution is equally simple to state: The first requirement is that we balance our budget and keep our financial house in order; which means we must pay for the national needs expressed in the budget instead of giving IOU's or printing more paper dollars and thus driving prices up; the second requirement is that we increase our productivity and pass benefits therefrom to the consumer, thus raising our standard of living and fostering economic growth on a sustainable base.

"The way is clear. The will must be shown."

Unassailable logic, I would say. But it has a familiar ring: I seem to recall hearing those words and phrases before, including the days preceding our last ride down the toboggan. Everybody in Washington seems to know what we should do. All we need is some one with the answer to: "How?"

Benjamin Franklin wrote the answer in 1770, when he said: "My rule, in which I have always found satisfaction, is, never to turn aside in public affairs through views of private interest; but to go straight forward in doing what appears to me right at the time, leaving the consequences with Providence."

All wise men throughout the ages have found this to be a basic commonsense conception, and in practice has produced the rewards men value the most — a recognition of their integrity and unselfish sound judgment. In war torn France we find such a personality in De Gaulle, who has won the confidence of the people by their faith in his integrity — in Germany it is Adenauer, whose wisdom and inspiration toward constructive effort has taken West Germany from the ashes of war to the position of a healthy state—and Churchill, whose inspiration brought the British people through their greatest trial. Our need is an American ready to act on similar principles.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

As I See It!

by Charles Benedict

WHAT WAS THE REAL PURPOSE IN ANASTAS MIKOYAN'S VISIT TO THE UNITED STATES?

ACTUALLY there were a number of related reasons. And, I believe, that as a result of what Soviet First Deputy Premier Mikoyan learned by observation during his travels, and in his discussions with Congress, top government officials, big business and bankers, (and he is a keen analyst), he has come to see the United States in quite a different light — to recognize that we are not to be intimidated like one of the small states the Soviet Union is accustomed to dealing with.

If he thought that we would capitulate to Khrushchev's demands on Berlin, and that, out of fear, we would further appease the Soviet Union with special trade concessions and long term credits (that may never be repaid), he found he was greatly mistaken.

Mr. Mikoyan's visit was perfectly timed to this purpose, coming as it did on the heels of the ultimatum on Berlin, and following the NATO Conference in Paris, which rejected Khrushchev's proposal out of hand, and presented a picture of solidarity between the United States and the Western powers, in place of the bickering and disunity that had existed heretofore.

Mr. Mikoyan had the assurance to think that he could upset the balance again because he had underestimated our psychological resiliency and our strength.

Where for years Russia had concentrated her devious techniques on the people of the Western European States for the purpose of disrupting the defensive NATO alliance, Mikoyan now tried to work from this end, by tackling the United States directly in an attempt to arrange a settlement between this country and Russia which would practically ignore Western Europe and its interests.

So fearful were the allies regarding the consummation of such a bilateral agreement, that the various European governments developed a state of jitters, and the hue and cry that arose in the press extended from the Danube to the Thames. As matters have turned out, whether Khrushchev was wise in trying to plant the seeds of suspicion is a moot question, because, from present indications, his maneuvering is bound to boomerang rather than accomplish his purpose.

The possibility of any shift in our position on Berlin was killed off shortly after Mr. Mikoyan's arrival, when, in response to a question from a reporter as to whether the Soviet Union was likely to ease its demand on making Berlin a Free City, he replied "Why change? One does not change a good position".

And later, he made another remark that will become a classic, when, during his interview on "Meet the Press", he said that only West Germany was involved in Khrushchev's plan for Berlin, that the Free City status did not apply to East Berlin since it was the capital of East Germany and could not be changed.

Altogether, the very evasiveness of his answers to various questions was highly revealing, and, in fact, it would have served his purpose better to have answered frankly — to explain.

Only Mr. Mikoyan's charm and personality kept his responses from seeming arrogant and threatening.

Gradually it became clear that Mr. Mikoyan was not empowered to make political adjustments on Berlin, but to hold out the hope that the easing of trade restrictions might produce a compromise. In a word, the basic purpose of his visit was to further Russia's 7-Year Plan for expanding its industrial capacity, simultaneously with raising the standard of living promised the Russian people.

From his arrival, and to the last day, he had been working for a deal that would greatly expand Russian trade with this country, in which the purchase of consumer goods loomed large, and maneuver the United States into footing the bill. In fact, the only time he lost his composure, and his temper flared, was when his trade deal was flatly turned down by the State Department, indicating that the prime objective toward which he had been working had fallen through.

Yet, Mr. Mikoyan's visit to the United States was

a plus for us, for while he was learning about us, we were also learning about Russian thinking from him, confirming many of the ideas we had regarding their attitude and their intentions toward us.

For his part, if Mr. Mikoyan was thinking of our depression of 1958 in terms of conditions that existed in 1936, when he was here last, he was quickly disillusioned by what he saw everywhere he went. He had not expected the enormous expansion which had taken place in the past 23 years since he was last here, and he was deeply impressed.

Sounds the Same but Spelled Differently

Getting around in depressed areas like Detroit and Cleveland, he saw for himself that our country had not been seriously hurt by the depression, which he must have assumed had reached serious proportions in the light of the decline in the value of the dollar, and his thinking in connection with the economic warfare which the Soviet Union is waging against us.

Idealogically, too, he must have observed that we can give the Communist system cards and spades in knowing how to spread wealth among the masses, who in the U.S.A. are enjoying a living standard comparable to that of only the wealthy Europeans.

If Communist ideas regarding capitalism had not been so hidebound, they would have known that the tremendous productive capacity of our industrial machinery made it necessary to greatly expand markets among all income classes in this country, which automatically raised our standard of living, because the well being of big industry depends on the accelerated consumption of consumer goods by the masses. To find almost every worker owning a car, and even a second car, television, vacuum cleaner, electric washing machine and mechanical equipment of all kinds must have been a revelation to him, and gave him something to think about.

And when he saw the great network of roads stretching from one end of the country to the other — Government financed and paid for by the taxes of the people of these United States — he for the first time realized that our free enterprise Democratic system had accomplished what in previous ages autocratic governments had considered possible of realization only with the use of slave labor.

All in all, Mikoyan's first-hand picture of the United States will cause the Soviet Union to revise its warped conception of our position and our future.

Already steps have been taken by Mikoyan to revamp the entire system of news-gathering in the United States — steps that are likely to produce a shake-up, too, in Soviet diplomatic reporting, due to the sharp contrast between the real America and the distorted picture of the United States presented by the Soviet press, which has concentrated on crime, civil rights disturbances, and juvenile deliquency, the kind of news that is common to every country around the world today, and is not confined to the United States, — but exists in Russia as well.

In addition, there is the slanted news by our politicians, such as the statement made by Senator Stuart Symington, Democrat, in which he forecast a 4 - to - 1 Red missile lead by 1961. This was pure conjecture, and seemed merely to be an answer to Mr. McElroy's statement in the morning regarding an operational intercontinental ballistic missile, yet it was given harmful front page billing in the press.

It is the sensational handling of this type of news that has created an erroneous impression of the position of the United States and misled Soviet leadership as to the true state of affairs in our country.

As we all know, reporting in the Soviet press is the result of the slanted view-point insisted on by the powers that be, and I doubt that it will be rectified, because the policy to make the people believe what they want them to believe, is inherent in the Communist system. As heretofore, the press has followed the party line, and omitted the favorable aspects of the Mikoyan visit, just as they have the various constructive developments taking place in our country for many years past.

In ordering Mr. Mikoyan back from his vacation five days ahead of time, Premier Krushchev was undoubtedly seeking a first-hand report on the state of our nation before he addresses the Communist Party Congress next week.

In the meantime, a Soviet whispering campaign is saying that secret Russo-American negotiations are going on that will produce key changes in U.S. policy in Germany under a settlement of world problems, and is fanning the flames of suspicion, keeping U.S. diplomats busy denying these planted rumors. Even Red China seems to be worried, and Chou En-lai was an early arrival on the scene.

Even though the State Department has pointedly denied, against insistence from Soviet sources, that an historic turning point has been reached in the relations between the United States and Russia, the next few weeks should give us the answer. END

Inflationary Market Continues

The market remains dominated by emphasis on long-range inflation and expected further business expansion. Both have been proadly discounted for the present. Recent demand for stocks has been less aggressive, the cross-currents more numerous. Better buying opportunities will develop on coming sell-offs.

By A. T. MILLER

Selective upward tendencies in the stock market were extended during the last fortnight, but without impressive momentum. So far as the averages are concerned, the going on the upside has become laborious at least for the time being; and the net changes in seven consecutive trading sessions through the end of last week were slight. Nearby movement either way out of the recent congestion area will bear watching. It could be downward.

In this area the industrial average has so far been confined to about a 2-point range, although it did reach a new all time closing high of 597.66 on January 21 before easing slightly thereafter. It has yet to close above the perhaps interesting, but not technically significant, 600 level which has twice been slightly exceeded on an intraday basis in recent sessions. Rails have been making a line since extending the prior rise of the average to 167.38 on January 15. At the best level last week utilities were up slightly to another new postwar high. Today's investors evidently do not care that utility dividend return of about 3.7% is materially under average prime utility bond yield of 4.3%.

"No Evidence Of Top"

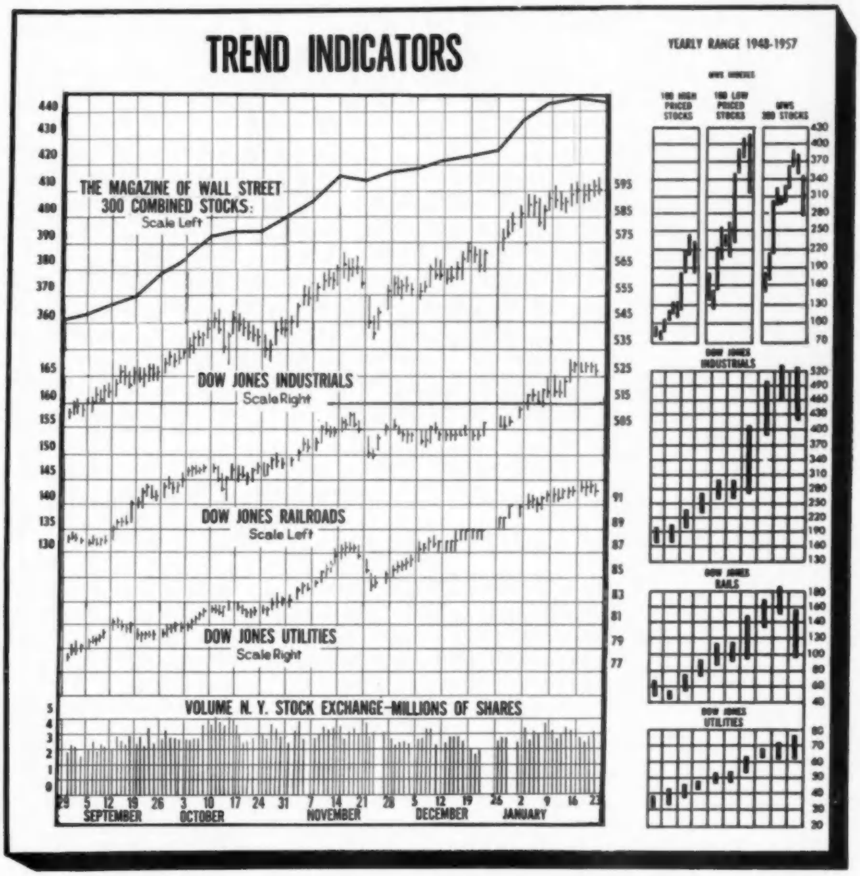
It is argued that there is no "positive" technical evidence of any kind of top. That is true enough, but there is never positive evidence of a pre-reaction top until the market has receded substantially therefrom; and rarely can the timing of even a major top or bottom be much more than a matter of guesswork. The idea that big advances or declines "wear out" gradually over a period of weeks is not well founded. Rarely does the market hesitate long in immediate vicinity of a top or bottom.

Basis for more than temporary market shakedowns, regardless of their scope, can hardly be cited until — right or wrong — the consensus begins to reflect growing doubt about the continuation of the expansion cycle in business activity, corporate earnings and dividends. As the recovery is still fairly young, no such change is likely for some time. Neither is positive Government action — as distinct from talk — to end the present concern with the long-range inflation threat.

On these premises, a familiar theory today is that no market reaction is likely to go much, if any, beyond about 5%

from high to low closing level of the industrial average. That remains to be seen. If there is as much speculative excess and general over-valuation in this market as we think there is, it seems questionable that occasional 5% sell-offs are all one need allow for — each presumably to be followed soon by strong further advance.

If there is disenchantment coming because too much has heretofore been expected of business activity and price inflation during 1959, it stands to reason that the market will advance considerably less during the year than it did in 1958. That might involve fairly sharp correction before long; or more frequently minor corrections and wait-and-see pauses.



Stock Vulnerability Versus Averages

In any event, you do not buy or hold the averages; and, in a market so largely influenced by institutional and other professional "switching-around", the vulnerability in many stocks can prove to be uncomfortably wide. How can you get hurt today with industrial average around its best level ever? Well, here are some stocks which are now down plenty more than 5% from their 1958-1959 highs: American Cyanamid 12%, Byers 16%, Caterpillar Tractor 10%, Copper Range 17%, Ex-Cello-O 15%, Foote Mineral 23%, Magnavox 17%, Consolidated Electrodynamics 24%, National Cash Register 16%, Merck 12%, Alcoa 12%, Raytheon 16%, First National Stores 14%, Thiokol 10% and Texas Instruments 20%.

No doubt there are many other similar adjustments coming in over-valued stocks, whatever the averages do; and, in any general reaction of even 5%, numerous individual declines will exceed those cited in the preceding paragraph.

It is true that institutional funds are playing a big role in this market; and that, as long as the business-financial fundamentals are considered expansionist, they will be buyers of stock on balance, even though their present market policy in many cases is less aggressive than in prior months. It is also true that many individuals are long-term investors who continue to put accumulating surplus funds mostly in Blue-Chip stocks, and who will stand pat on such holdings regardless of interim market swings.

Gamblers on Prices

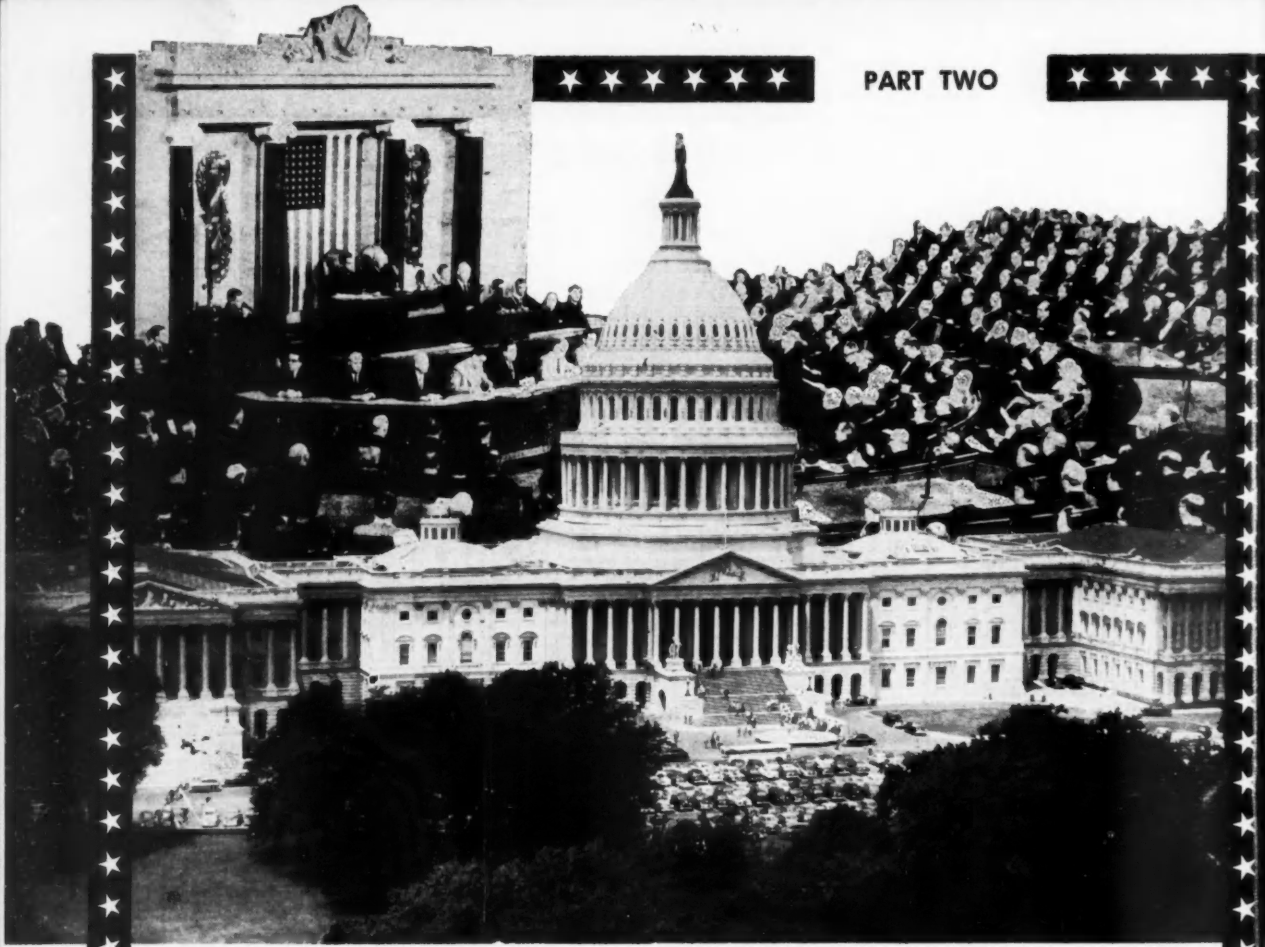
On the other hand, it is apparent that since the Spring of 1958 there has been a bigger relative increase in speculative demand, as reflected in operations of Big-Board member firms for their own account, floor traders, other professionals, and amateurs who in large measure are gamblers on prices rather than buyers of values.

So viewed, the market is like a house with a strong foundation and sound walls — but a somewhat flimsy roof built by the speculators: a roof which will not stand intact when a little bad weather comes along, or when speculators get a concerted notion for any reason or no reason, as they do from time to time, that they had better beat the other fellow to it in profit taking. The market "roof" is more speculaive than in a long time; and any crumbling of it could for a time do more damage to sentiment and therefore to the averages than you might suppose. Some people seem unaware that there is no such thing as a one-way market.

Some Earmarks Of Speculation

Indicative of speculation, the cats and dogs are in greater favor than in many years, and stocks run up 3 to 5 points on news of developments which could possibly add modestly *(Please turn to page 500)*

PART TWO



An Expert Appraises . . .

THE MOST UNUSUAL BUDGET MESSAGE EVER DELIVERED

By James J. Butler

THERE are surface similarities between the President's Budget Message presented to Congress Jan. 19 and the one he offered a year ago: in each instance a balanced budget and an operating surplus were envisioned, predicated upon higher tax receipts and judicious Federal spending.

One year ago we commented, in this space: "The balance between Treasury income and outgo is, at best, a guess. A bad guess, it will prove this year." Unless there arises a taxpayers crusade under the leadership of the President, and a responsive Congress, that forecast will hold true for the Fiscal Year beginning July 1.

Instead of a $400 million surplus foreseen by Ike one year ago, we have come up with a deficit which may go as high as $12 billion, depending on business conditions and tax receipts.

The President's rationale for a balanced budget is impressive. But White House proposals are not self-implementing. Contemplated is the provident turn of forces beyond the Chief Executive's reach, plus the wise use of those which are in his hands and those of Congress. Whether the President's guess on income-outgo will be closer to the mark is a question that is substantially within the control of Congress.

Mr. Eisenhower told Congress the Federal Government can carry on, and take care of expanding needs, with a budget of $77 billion; that it can collect, mostly within the existing frame-work of taxes, $77.1 billion. He told the lawmakers they can look forward to tax reduction in early future years if they accept his proposals. This time the President was not taking the risk he took a year ago in estimating receipts. Always somewhat risky, it is based now on signs that there is a genuine business boom ahead. Last year it looked hopefully to retention of the status quo—certainly not getting worse and likely to get better.

Political Realism

When last year's Message was delivered, the democrats in Congress had a thin numerical edge. Ahead was the off-year election which would decide the makeup of the 86th Congress. The two parties were determined to approach it on the basis of contrasting practices: the GOP was sworn to economy in Government, reducing expenditures until it hurt, and then giving the wringer one more full twist; the democrats with various slogans which added up to the same result were pledged to "make the voters happy"—the farmer, the industrial worker, the Social Security claimant, the army of Government employees. Those two ideologies met at the polls last November. The result was a rout of the republicans, an indorsement of the democrats. Ike is asking an overpowering number of democrats now to repudiate the platform on which many of them believe they had been elected, or re-elected.

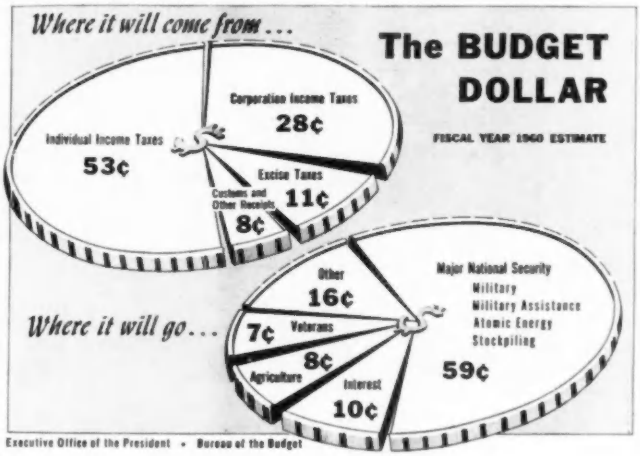
Milling in the Capitol corridor after the Budget Message had been released and its highpoints digested, one wily democratic House member smirked: "He's asking us to vote ourselves out of a job!" There is very little Congress can do to alter substantially the business cycle. But, always within their own lights, they can vote job-insuring appropiations to protect themselves. There remains the Presidential veto power, expected to be used generously in the Fiscal Year beginning July 1. If the democrats withhold final action on appropriations bills until close to the end of the session, they might mousetrap the White House: the President signs the bills or the departments and agencies enter the new year with empty treasuries. If the contest between the two branches of government becomes a fight-to-the-finish, Congress could even withhold funds to pay the President's salary and to operate the White House. It is extremely doubtful that the forces of legislative sanity could be thrown into such a tailspin. *Inherent in the situation though, is a challenge and a test of the patriotism of Congress and its willingness to legislate in the public interest.*

Before the truckloads of copies began moving from the White House annex to Capitol Hill, the ingredients of an unbalanced budget had come into existence. Democrats, irritated at the advance publicity given a balanced set of figures, saw in the timing a tint of politics. Ike was putting it up to them to become the "unbalancers," if that were to happen. When the White House "leaked" the knowledge that a $100 million surplus and the prospect of tax adjustment at an uncertain future date were within the decision of the democrats, they appeared to regard it as a political challenge to be accepted: they flooded Senate and House hoppers with big money legislation.

While the President has softened his sweeping charge of "spenders" against the democrats to a statement that "some of them show a proclivity for spending" it might be in the national interest to go even farther. One of the first to sidestep the White House plea for a non-spending attitude was Senator Prescott Bush of Connecticut, an old reliable of the GOP. He proposed $1.5 billion in grants over a six-year period to carry on the slum clearance program. The President was to propose proceeding on the basis of one-third of that amount: $100 million next year.

Bush, nevertheless, placed his recommendation in the form of a bill and took the floor to say: "This program must be made available for the urgent task of preventing the further decay of the cities of America."

And another crack showed in the "economy bloc" when Senator Harry F. Byrd, who had enthusiastically acclaimed the pay-as-you-go program of the White House raked the Navy over the coals: The Virginian assembled Congressmen from his and the neighboring state of Maryland to unite in fighting plans to clase the Chincoteague Naval Air Station. The station employs 800 civilian constituents and 3500 military personnel. The Chincoteague Station is one of 30 installations in 17 states which were marked for closing for reasons of efficiency and economy. Congressional delegations from the other 29 areas have not been heard from. They will be heard, no doubt.



Breakdown of Income and Outgo

Since enthusiasm and wishful thinking aren't budget balancing guarantees it must be borne in mind that the most potent influence in Congress, *Speaker Sam Rayburn*, had this to say after assuring the President's view will be examined: "We (the democrats) will write the ticket!" *He had just given his blessing to a multi-billion dollar omnibus housing bill, later introduced by Rep. Albert Rains, Alabama democrat.* After counting heads, Rains said there is no doubt that the bill will be enacted. He said he already had assurance from the Senate leadership that the measure will have priority on that side. The housing bill which won Senate approval last year provided for spending of $2.4 billion. It was lost in the pre-adjournment rush in the House.

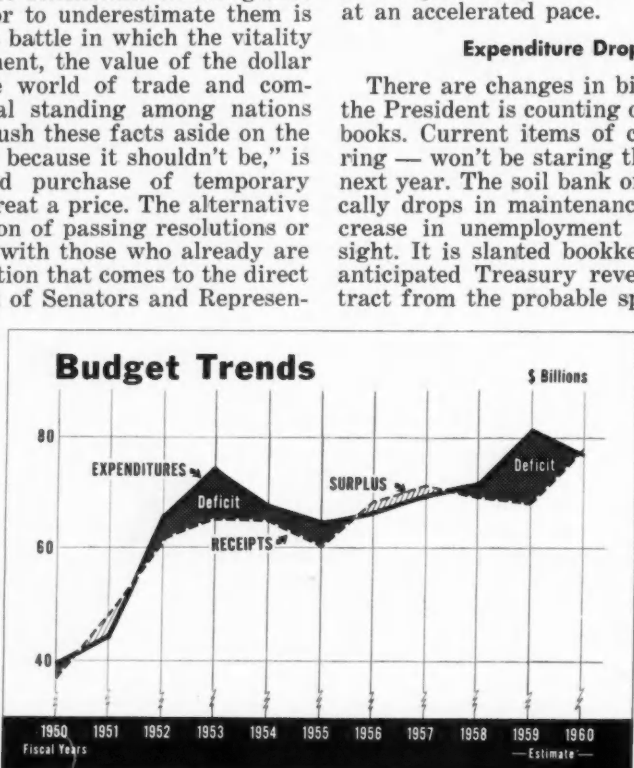
President Eisenhower's economy budget not withstanding *Senator Lyndon Johnson, majority leader in the Senate, disclosed that his party will place its interest and controlling vote behind an airport bill, a depressed areas bill, and Federally-aided housing.* President Eisenhower last year vetoed a depressed areas bill involving an outlay of $275 million, and

an airport construction bill calling for $575 million in grants-in-aid.

The foregoing discussion presents some of the less heartening facts bearing upon the outlook as the Budget Message is being scissored for submission of its many parts to committees in charge. To ignore their existance or to underestimate them is to move unarmed into a battle in which the vitality of the Federal Government, the value of the dollar and its prestige in the world of trade and commerce, and our political standing among nations could be at stake. To brush these facts aside on the theory that "it can't be, because it shouldn't be," is blinding to reality and purchase of temporary mental comfort at too great a price. The alternative is action — not the action of passing resolutions or of agreeing vehemently with those who already are equally convinced but action that comes to the direct and immediate attention of Senators and Representatives—of both parties.

Not a Cheap Budget

The President's estimates of costs of government do not comprise a "cheap budget." It doesn't contemplate austerity or even skimping. Mr. Eisenhower recommends the largest peacetime budget ever; there are few occasions when any other President considered needed operating funds in the amounts he proposes. *The total is $2 billion more than some of his advisers have told him would be practicable, with only fair economic recovery.* There is more defense money, more mutual assistance (foreign aid) than at present; it will give a full year of pay increase to millions of military and civilian employees of government who were on a higher level for only a part of the current year. It is a budget in harmony with Ike's State of the Union Message in which he declared, in effect, there is no ceiling on necessary spending, but no room for waste.



Surplus or Deficit Years

Federal Income Prospects

Government spending in the current Fiscal Year will be in the area of $80 billion. The official estimate of revenue for Fiscal 1959 is $67 billion. However, if business continues to improve it should be somewhat higher. An increase in Treasury receipts from 1959 to 1960, of $9 billion, would be necessary to balance the new budget. No less an authority than Chairman Wilbur Mills of the Ways & Means Committee (a democrat) says a continuance of the business pickup at the present rate would produce tax income next year between $75 billion and $78 billion. In Fiscal 1956 when the economy was recovering from a previous recession, revenues jumped by almost $8 billion — with no increase in tax rates. No general tax boost is planned next year. For each $1 billion increase in total personal income, Federal revenue rises approximately $150 million, according to Chairman Mills of the tax-writing committee. In November, personal income was at a seasonally adjusted annual rate of $2.5 billion higher than in the preceding month. The pickup has continued at an accelerated pace.

Expenditure Drops Contemplated

There are changes in big items of expense which the President is counting on to brighten the Federal books. Current items of cost which are not recurring — won't be staring the Treasury in its ledgers next year. The soil bank of the farm plan automatically drops in maintenance expense, temporary increase in unemployment benefits is not again in sight. It is slanted bookkeeping to take this year's anticipated Treasury revenues of $67 billion, subtract from the probable spending figure of $80 billion, and come up with $12 billion as the problem that stands in the way of a balanced budget. It is more realistic to accept the President's figure supported by Chairman Mills' observation and, more important, by the facts of tax collection, and use that as the income figure for next Fiscal Year. There you have $77 billion. Take the non-recurring charges, plus added income from an increase in the gasoline tax, added postal revenues, and new user charges for Federal services, and the disparity between income and outgo measures up to about $1-2 billion — without slashing anything, anywhere. *The job that faces the government, therefore, is to cut not more than $2 billion; plus, of course, refrain from inaugurating new and costly financed or aided programs on local levels.*

So as not to err on the side of oversimplification, it must be pointed out here that to accept Ike's budgetary proposals to Congress, and also enact any substantial part of the projects contemplated in bills already before Congress (taking for this purpose only those rated likely to pass) would wreck the notion of a balanced budget for Fiscal 1960. Whether Congress, with the November "mandate" will be willing to wait, for example, for the President's promised message "to define more clearly the proper roles of the Federal Government and the local school district," meanwhile extending classroom aid only to Federally-impacted employment areas and military installations, raises an inquiry that cannot be answered today. Will Congress ignore the Rains housing bill and others which will be submitted, and follow the President's program: "I shall not ask for authorization for any additional (housing) units"?

In Conclusion

In Washington there appears to be less doubt that

tax revenues can be built to $77 billion within the existing Revenue Act, than there is skepticism that the Government can be run on $77 billion next year without sacrificing essential services. But here is what the President says can be done with $77 billion:

►Strengthen the effectiveness of our Armed Forces by further modernization and by improved efficiency of operations; and strengthen the free world security by continued military assistance to our allies.

►Assist free nations in their economic development through well-considered programs.

►Promote scientific research and space exploration.

►Carry forward current public works programs — now larger than ever before.

►Continue at a high level programs which promote the general welfare of our people.

►Foster community development work with increased local participation.

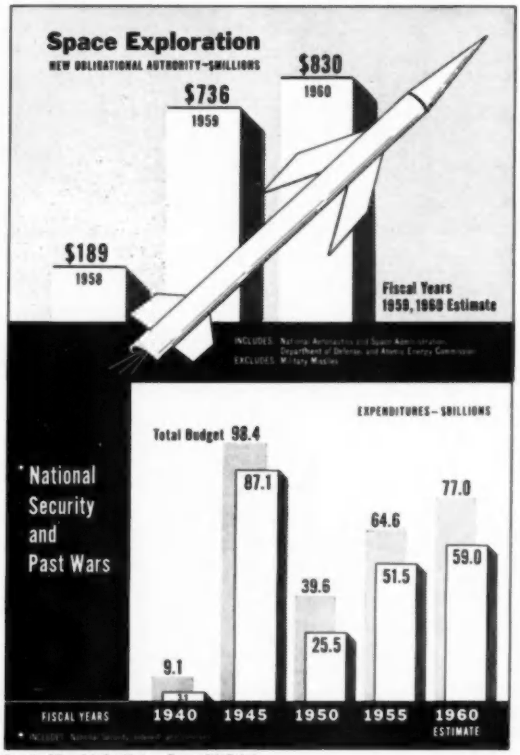
►Discontinue temporary emergency measures and strengthen permanent programs for economic stability.

►Continue the adjustment needed for a freer agricultural economy with less reliance on the Federal Treasury.

►Reduce the burden on the general public for services to special groups.

►Encourage private lending through flexible interest rates for Government credit programs.

►Achieve long-run economies by adapting programs to changed circumstances.



Executive Office of the President · Bureau of the Budget

The President's new receipt proposals are:

1. Raise motor fuel tax to $4\frac{1}{2}$ cents per gallon.
2. Increase postal rates to produce an additional $350 million.
3. Enact an equitable plan for taxing income of life insurance companies.
4. Enact corrective legislation relating to tax on cooperatives.
5. Raise aviation gasoline tax to $4\frac{1}{2}$ cents per gallon and place a new $4\frac{1}{2}$ cent tax on jet fuels.
6. Revise rules for computing percentage depletion allowances to insure that they are limited to mining processes.
7. Adjust fees and charges so that persons receiving special services will more nearly pay the cost of such services.

The President's legislative program includes a 4-year schedule of grants for construction of civil airport facilities; loans and grants to aid areas of chronic unemployment; a 6-year program of urban renewal capital grants; revenue bond financing for TVA generating facilities; item veto on legislation involving expenditures of money; broadened coverage of the wage-hour law; laws against labor-management racketerring and excesses; continuance of the corporate tax at present level; continue the Selective Service draft.

The above are examples. They cannot exhaust the story told in a 1027-page detailed budget. Even those who do not share Ike's fiscal views agree that he has left few topics uncovered, fewer neglected. There appears to be no fundamental quarrel with the premise that he is moving in the right direction, The fight, and it will be a tough one, is to produce answers to the question: "Is the President moving far enough and fast enough?"

President's Economic Report and Recommendations

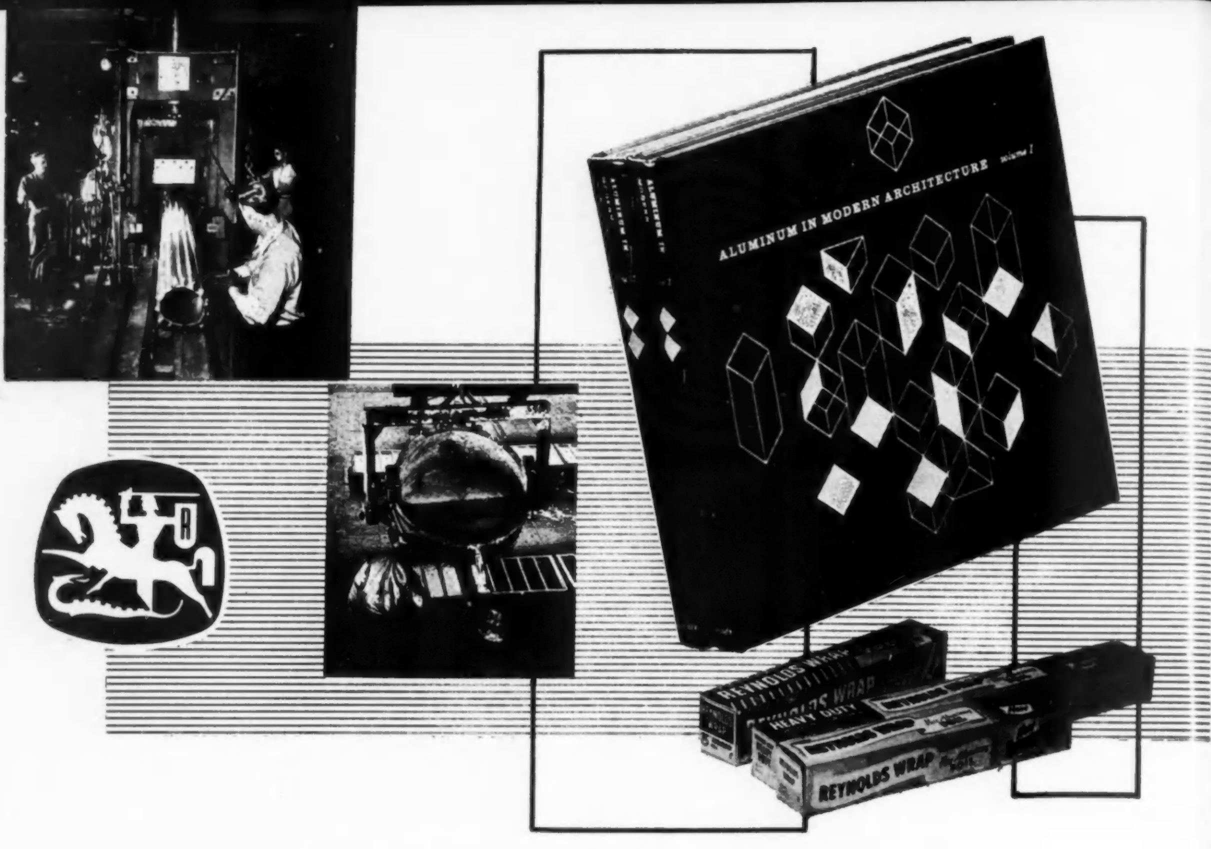
President Eisenhower's economic report to Congress places victory over inflation as the No. 1 domestic issue, names runaway prices as a major problem to be overcome, puts it squarely up to management and labor to wage the war, and states the alternative to victory is a choice between ruinous inflation or stifling government controls.

Better business is foreseen with no promise that a boom is directly ahead. Within the framework of reasonable prices, the President sees the weapons to defeat the forces of inflation. With especial attention to organized labor, he counselled against the mistake of believing that the economy can be strengthened by a passive attitude or, in fact, anything short of sacrifice, if not austerity.

Implementation of the employment act of 1946 demands congressional action to stabilize prices by encouraging maximum production, employment and purchasing power, the Presidents message conveyed.

The combination of improved business, prudent spending and balanced budget will pave the way for eventual tax adjustment beginning with "incentive" tax cuts encouragement to business expansion through investment.

Antitrust and anti-merger law enforcement and abandment of wage increase demands not supported by increased productivity were urged. The message was Ike's most ringing declaration of war on inflation since he took office. END



HOW REYNOLDS METALS Won Control of BRITISH ALUMINIUM

- Against powerful competition from Alcoa
- Why stockholders decided against advice of British Aluminium management
- Outlook for prospects through broad diversification of interests

By Caleb Fay

EARLY this year Reynolds Metals was able to announce that it and its associate, Tube Investments, had acquired enough stock of British Aluminium Company in the open market to insure complete control of Britain's leading producer of aluminum products in the United Kingdom. Tube Investments is a British company engaged through several subsidiaries in production of steel tubing and owns 50 percent interest in an aluminum fabricating company in England, the other half being owned by Reynolds International. The latter acquired a half interest in Tube Investments in September 1957, and formed Reynolds T.I. Aluminium Ltd, control of which is held in equal parts. International and T. I. have assumed equal responsibility for the management, operation, and future development of aluminum fabricated products in the United Kingdom. It marked the first step that Reynolds had made to invade the British market, next in importance to the United States in consumption of aluminum.

The Struggle For Control

This development aroused only passing interest in financial circles. While Tube Investments was a substantial company, it accounted for only 10 percent of the British consumption of aluminum fabricated products. A bigger prize was envisioned by the aggressive Reynolds men. This was British Aluminium, the leading producer in the United Kingdom, originally established in 1894, thoroughly integrated from production of bauxite to manufacture of fabricated products, either directly or through subsidiaries in every phase of the industry. It accounts for about 40 percent of all sales of aluminum products in England, and is as British in character as John Bull himself.

The Alcoa Deal

Reynolds was not alone in wanting British Aluminium. Two other giants of American industry had

been quietly moving in. American Metals-Climax had already accumulated about 7 percent of the stock in its portfolio. But its interest was strictly subordinate to that of the **Aluminum Company of America,** who proposed, under an agreement reached on November 14 and subject to consent of the British Treasury, to acquire the whole of the 4,500,000 authorized but unissued stock at a price of $8.40 per share. This would have amounted to one-third of the authorized 13,500,000 shares of ordinary stock. According to a published story in the London Times, negotiations between Alcoa and British Aluminium had started in June. Alcoa disclaimed any desire to acquire control of the company. It wanted to participate to a greater extent in the development of aluminum world markets and so promote relationship between the two companies. Alcoa declared it wanted no more than three out of the fifteen members on the Board, and proposed to leave the Board as free as before to carry out plans at home and abroad. Alcoa would undertake to subscribe for the 4.5 million shares on terms which would insure to British Aluminium the finances required over the next few years when and as needed, leave undisturbed the main body of stockholders, retain the British nature of the company and secure in the near and distant future the great accession of financial strength which was needed to exploit its potential development.

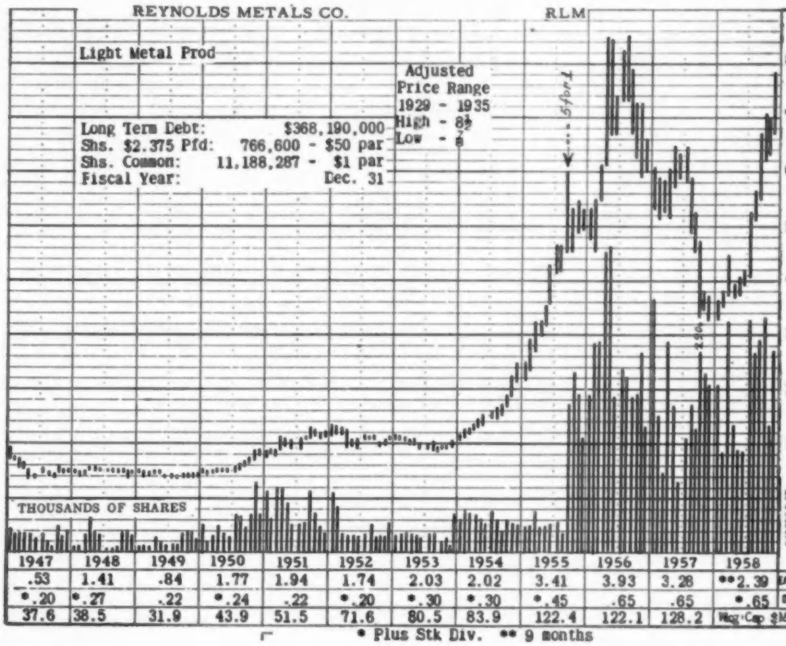
This proposal by Alcoa brought enthusiastic endorsement from the Chairman of British Aluminium. In a circular letter of December 5 addressed to stockholders, he pointed out that to raise the large amount of capital needed for turning into future earning power the discoveries of bauxite, and power resources the company had made, there were two alternatives: to grow slowly, using funds internally generated, or to grow much faster in partnership with another large aluminium producer. The second seemed to the Board to be in the best long-term interests of the company and the stockholders. Accordingly an alliance was considered with Alcoa, of whom the Chairman spoke glowingly, that at all levels of management Alcoa and British Aluminium had been on the closest terms of mutual trust and friendship for many years.

The outcome of various meetings resulted in an agreement with Alcoa on November 14. Under the terms of the agreement a substantial sum should be provided in the first place and the remainder not later than three years. By its contract British Aluminium was securing for itself the fresh money needed to carry through its capital development program without having to call on its stockholders.

Reynolds Steps In

In the interim, perhaps somewhat to the consternation of the Board, there had been heavy buying going on in the London market by parties whose identity could not then be ascertained despite vigorous efforts of the management. But by the end of October the news was out. Reynolds and Tube Investments had bought upwards of a million shares of the nine million issued and proposed to the Board to acquire the whole of the ordinary stock of the company. The Board decided instead to complete if possible the Alcoa negotiations. In the circular letter to the stockholders, it was bluntly declared that Tube Investments had no experience in running an international aluminum complex and it was inevitable that the real functions of management would fall into the hands of Reynolds alone and the stockholders interest in the future of British Aluminium would have been virtually extinguished.

It was patently obvious that the management of the company was opposed to the Reynolds-T. I. proposal. But their appeal to their stockholders not to sell their shares fell on deaf ears. The Reynolds T. I. proposal offered stockholders immediate cash for their shares at a price substantially higher than Alcoa proposed to pay to the company for the unissued stock. In brief the Reynolds T. I. bid was $10.92 plus one share of T. I. stock (then quoted at the same price) for each two shares of British Aluminium stock, or obviously about $10.92 per share. This was $2.50 more than the price offered by Alcoa for treasury stock. British stockholders hastened to cash in, although the managing director wailed it was "a raid on the future, and stockholders would lose the benefit of the big developments that were in mind."



Why Reynolds Was The Victor

To calm the fears of the Treasury that British Aluminium was being sold down the river, the successful Reynolds T. I. group announced its plan to

Long-Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned On Invested Capital	Price Range High Low
1958—(10 months to Oct. 31)	$372.8	$70.3	18.8%	$28.1	$31.9	8.5%	$2.72	.65[2]	—	78⅛-32¼[3]
1957	446.5	82.2	18.4	35.5	37.8	8.4	3.28	.65	12.9%	65¼-32⅝
1956	405.2	92.6	22.8	42.5	41.2	10.1	3.93	.65	15.7	85 -45⅛
1955	384.8	82.9	21.5	35.7	34.3	8.9	3.41	.54	21.9	60 - 45
1954	306.7	50.2	16.3	18.1	20.2	6.6	2.02	.30[1]	15.9	25 -10¾
1953	287.9	46.7	16.2	16.8	18.3	6.3	2.03	.20[1]	16.8	11¼- 8½
1952	234.7	41.0	17.4	19.7	14.7	6.2	1.74	.20[1]	15.7	13½- 9⅝
1951	215.7	51.8	24.0	32.2	15.8	7.3	2.11	.22	19.7	13¼- 7½
1950	166.9	28.8	17.2	13.3	12.6	7.5	1.76	.24[1]	19.0	8⅜- 4⅛
1949	131.8	10.5	8.0	3.3	5.5	4.1	.84	.22	10.0	4⅝- 3¾
1948	149.2	16.4	11.0	6.1	9.0	6.0	1.40	.27[1]	17.9	5¾- 3⅞
10 year average 1948-1957	$272.9	$50.3	17.2%	$22.3	$20.9	7.1%	$2.25	$.35	16.5%	85 - 3¾

1—Plus stock.
2—Total for 1958; plus 2% stock.
3—To 1/14/1959.

put all of the stock it had acquired into a holding company, of which Tube Investments would have 51 percent of the stock and Reynolds 49 percent. This would insure that control would remain in the United Kingdom. In addition, it was declared that Reynolds T. I. would be able to provide any financing the company needed in future. By the middle of January, it was announced that the Reynolds T. I. group had acquired over 87 percent of British Aluminium stock, and it was presumed that American Metal-Climax had turned over their shares to it as well, with more stock coming in. To finance these purchases, Reynolds Metal has announced it would offer a new issue of 550 thousand shares of a second preferred convertible stock, expected to be on the market in January.

The victory of the Reynolds T. I. group against the expressed wish of the British Aluminium management may have been caused by delay in making clear to stockholders what the Alcoa proposal meant. When the letter to stockholders was finally issued, the damage had been done. It also seemed despite denials that the Alcoa proposal meant that effective control of the company would be in the United States, while the Reynolds T. I. proposal would insure that nominally at least it would remain in England. That salved national pride and made it easier for the British Treasury to give its assent. There had been a mighty hue and cry that this was another instance of an attempt by American capital to take over large holdings in British companies because of inability to provide sufficient financing for all projects at home and abroad, and the need to stop this was of far greater importance than the interests of the stockholders themselves.

In the final analysis however, it was probably disappointment by British stockholders that caused them to turn against the management. In contrast with the lofty heights attained by American aluminum shares, British aluminium stock has given a drab performance, and has rather consistently sold below its high of $10.75 of 1956, when a strong group of American investment houses were active in promoting the sale of new stock to finance development of a new subsidiary company, the Canadian British Aluminium Company, of which British Aluminium held 60 percent of the stock. Earnings since 1955, when they were at a peak of 88 cents a share, fell to 72 cents in 1956 and to 49 cents in 1957, on a larger number of shares. Dividends however were maintained unchanged at 33.8 cents per share before deduction of the British income tax during the period, but evidently the coverage was becoming narrower.

The Problems that Beset British Aluminium

Nevertheless, British Aluminium has a rather imposing position in the aluminum industry. The company manufacturers over one-third of all the aluminium products made in Great Britain, drawing its supplies of ingot from refineries in Scotland and Canada. It has other interests in Norway, Australia, and West Africa, including extensive bauxite deposits. Its present fabricating capacity is in the order of 200,000,000 pounds annually, which would probably account for some $50 million in sales. Before the war the company was reasonably well balanced between ingot production and fabrication, but following the war, it was unable to expand its primary ingot production to take care of its substantially increased fabricating facilities because of lack of adequate power resources in U. K. To rectify this, the company acquired a 60 percent interest in a new subsidiary, the Canadian British Aluminium Co. Ltd. to establish ingot production in Quebec. This would increase its production of primary aluminum about five times, from 32,000 tons per year to 160,000 tons, and make the company the sixth largest in the world. This would be done in four stages extending through 1965 and involve an ultimate capital expenditure of some $130 million. The first two stages have been completed. The C. B. A. smelter at Baie Comeau, Quebec, is presently producing, but has not yet reached an earning position. It is officially stated that the *(Please turn to page 492)*

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Pressing need to halt duplication of COSTLY RESEARCH

► **To cut the government costs**
► **To increase profits for industry**

By **ROBERT B. SHAW**

A popular song of some years back repeated incessantly the theme-line. "Everybody's doing it!" And, today, in the business world the answer to the same cryptic assertion could only be: research. Well, *almost* everybody is carrying on research. Indeed, so popular has this pursuit become that it would be considered an insult, inviting a flood of indignant letters to the editor, to single out any companies or industries as *not* being deeply involved in research.

Obviously, the term "research" covers a broad spectrum of activities, ranging from the extremely theorethical to the intensely practical. At one end, efforts may be concentrated upon solving irksome production problems; at the other end, research may comprise the study of phenomena which as yet have no economic utility.

Research is hardly the exclusive province of business or science; the method plays an important role in many non-business fields dominated by academicians and professors. The business man may also find valuable tools in many types of non-technical research, which may be broadly included under the heading of motivational research or, more simply, the study of what people do (or want) and why. But in the present article the meaning of research will be confined to technical investigations that aim at the development of improved products or techniques.

In this meaning, research may be divided, at some risk of oversimplification, into the following categories:

Product research
Problem research
Pure research

► Product Research of Immediate Practicality

Product research is the search for methods of improving an existing product, or the reduction of its manufacturing costs. Examples will readily

come to mind. How can an automobile engine be reduced in size to supply greater power within existing space dimensions? Can metallic shapes be molded more economically than they can be forged? Product research goes on continuously, almost unconsciously, even without reliance upon any specified "research department." Looking into our past history it would be debatable whether our high standard of living owes more to the geniuses who have transformed theory into new inventions or to the practical mechanics who have constantly refined those inventions, but it is clear that most machines whose services we enjoy today are a product of gradual improvement upon an initial idea.

► Problem Research Offering Longer Term Results

But these practical researchers have been largely superseded (in the public imagination if not in terms of real usefulness) by a new autocracy of more theoretical practitioners, veiled off from worry over keeping the current year's income statement in the black. Entering this higher plane we encounter first the category of *problem research*, the quest for methods of solving particular problems. Many of these problems have arisen only out of our modern stage of technology, or at least were considered insoluble by previous generations. Examples would be: how can metals be built to withstand the terrific temperatures generated by air friction in modern rocketry; how can cancer be conquered? Research of this type is obviously initiated with economic objectives, but the realization of profit-making results may be problematical and long-delayed. To cite one such instance, Armour & Company, the Chicago meat packer, initiated an intensive study of pituitary hormones back in 1936. This project brought the company no material advantage until 1949, when the team developed the valuable adrenal-stimulating hormone ACTH. In other cases results have been altogether negative; it sometimes becomes necessary to write off the entire cost of expensive research projects, just as oil companies charge off their dry holes.

► Pure Research—To Widen Future Horizons

At the highest level stands *pure research*, the extension of the horizon of human knowledge in areas that do not yet have practical application. It is true that technology is advancing at such a rate that the pure research of one generation is frequently transformed into the practical knowledge of the next, but the opportunities for converting such research into early dividends are too remote to justify many industrial corporations in carrying on programs of this type. Instead, pure research must be left largely to universities, to endowed laboratories, and to the government.

All Share in Research but to Varying Degrees

As the pig, remarked in *The Animal Farm*, "all animals are equal, but some are more equal than others." All industries and nearly all companies must perform *some* research, but some certainly do a great deal more than others. A few industries, notably drugs, electronics, missiles and office equipment, are virtually built upon research, usually performed by themselves. A larger and more typical group of industries produces products which did not originate directly within the laboratory, and yet are dependent upon research-derived refinements or processes to remain competitive. Even the simple paper bag is far more sturdy and moisture-resistant, for example, than its predecessor a few decades back. Moreover, research improvements that develop almost imperceptibly, like the steady climb in the octane rating of gasoline, must not be entirely overshadowed by the occasional dramatic breakthroughs, like the discovery of Salk vaccine. Finally, at the risk of indignant letters, a handful of industries where research occupies only a minor role may be named: railroads, residential construction, furniture. But it is impossible to visualize any surviving industry that performs *no* research whatever.

On rare occasions research scientists may discover the solution to difficult problems easily, even accidentally. But far more typical of their work is slow, painful progress by trial and error, each individual experiment involving the most precise preparations and extended observation of results. Pfizer & Company tested over 100,000 samples of soil sent to them from all over the world before isolating the strain of mold from which Terramycin was derived. The same company uses for cancer research, at its Maywood (N. J.) laboratory, over 250,000 mice a year. The frustrations involved in hurling man-made satellites into orbit are familiar to everyone who has been reading the newspapers. To go back three quarters of a century (for research is not exclusively modern), another example may be provided by Edison's protracted hunt for a suitable filament for his newly discovered incandescent electric light.

Costliness of Research

Such processes require that research laboratories be lavishly equipped and competently staffed; this means, in turn, that advanced research is unavoidably expensive. What is the total cost of research in the United States? Naturally it is hard to give any very precise answer to this question. For one reason, companies classify their research differently; some of the drug and electronic companies would probably sneer at the inclusion of mundane product development under "research." Moreover, it would be rash to assume that all research is necessarily performed within ivory-towered research laboratories; some very effective experimentation must be carried on and important discoveries made right on the production line (as the employee suggestion awards testify). Again, research overlaps, but is not identical with, such related concepts as engineering or product development. But with approximate accuracy, total research expenditures by all U. S. manufacturing industry in 1957 must have been very close to $7 billion, or about 2.1% of sales of $341 billion. If it errs, the $7 billion figure is apt only to be conservative, as research expenditures are more likely to have escaped the comptrollers than production expenses are to have crept into the research budget. In any case, this figure is exclusive of research performed by universities, endowed laboratories, or government departments in their own facilities, although it would include research performed for the government under con-

Research Expenditure in 1957 by Typical U. S. Growth Companies

	Amount of Research Expend-itures —(Mil.)—	% of 1957 Sales	Stated Purpose of Expenditure *	Net Sales 1957	1st 9 Months Net Sales 1957 —(Millions)—	1st 9 Months Net Sales 1958 —(Millions)—	1st 9 Months Net Earnings Per Share 1957	1st 9 Months Net Earnings Per Share 1958	Estimated 1958 Earnings Per Share	Ind. Div.	Recent Price	Div. Yield
Consolidated Electrodynamics	$ 3.9	13.0%	R, E. & D.	$ 30.5	$ 22.4	$ 24.1	.55	d.51	d.60	.40	38	1.0%
Corning Glass	5.6	3.5	R. & D.	159.0	120.8[2]	117.5[2]	1.86[2]	1.69[2]	2.35	1.50	99	1.5
Douglas Aircraft	54.6	5.0	EX	1,091.3	828.4	888.7	6.67	4.34	5.00	2.00	57	3.4
Du Pont	80.0	4.1	R. & D.	1,999.6	1,495.0	1,324.0	6.44	4.83	6.80	6.00	210	2.8
General Electric	277.0	6.4	R. & D.	4,090.0	3,169.2	2,982.6	2.10	1.85	2.65	2.00	78	2.5
Merck & Co.	13.1	7.0	R.	186.9	138.5	153.8	1.69	2.03	2.75	1.40	75	1.8
Minnesota Mining & Mfg.	16.4	4.4	R. & D.	370.1	274.2	271.3	1.75	1.75	2.50	1.20	120	1.0
National Cash Register	13.6	3.5	E. & R.	382.5	277.9	282.9	1.73	1.49	2.25	1.20	75	1.6
Pfizer (Chas.) & Co.	10.0	4.8	R.	207.1	150.2	160.3	2.86	3.18	4.50	2.25	99	2.2
Standard Oil of Calif.	17.5	1.0	R. & T. S.	1,650.8	1,260.4	1.175.4	3.35	2.97	4.00	2.00	59	3.3
Standard Oil N. J.	55.5	0.7	R.	7,830.2	6,041.0	5,728.0	3.35	2.23	3.20	2.40	56	4.3
Sylvania Electric	18.0	5.3	R. & E.	342.9	251.8	237.7	2.37	1.72	3.00	2.00	60	3.3
Texas Instruments	9.5	14.1	R, D. & E.	67.3	48.1	64.0	.78	1.10	1.40	—	71	—
Union Carbide Corp.	65.0	4.7	R. & D.	1,395.0	1,045.9	929.7	3.44	2.81	4.00	3.60	125	2.8
All U. S. Mfg. Industry	$7 Billion	2.1	—									

d—Deficit.
[1]—After special charge.
[2]—40 weeks ended Oct. 5.
[3]—Plus stock.
*—D—Development.
E—Engineering.
EX—Experimental costs.
R—Research.
TS—Technical services.

tract. Research performed by all of these agencies, corporate, non-profit and public, in 1957 is believed to have approximated $10 billion, about one half of it by or for the account of the federal government.

Our Sixth Biggest Industry

To put this huge effort into perspective, research, if it may momentarily be regarded as a single industy, would rank sixth or seventh among all industries in the country. It would be exceeded, in terms of sales, only by agriculture, construction, machinery, electrical equipment, and steel. In turn, it would, in terms of annual expenditures, far surpass such prominent industries as paper, textiles, rubber products, tobacco or aviation transport. It would also outrank, although by a narrower margin, such giants as automobiles, chemicals, all domestic mining, telephone and telegraph, or combined gas and electric utilities. In simpler terms, the cost of research approximates $60 annually for every man. woman and child in the United States. And the "industry" is still growing at an accelerated rate, currently about 7% a year.

Is this enormous expenditure worthwhile? An answer of 'No' would not merely threaten the writer with loss of his American citizenship, but would be manifestly untrue. Research very clearly forms one of the strongest foundation stones in modern industrial society. In the case of General Electric, for example, over one third of 1957 sales resulted from products which were not in existence prior to World War II. For the drug industry the dependence upon very recently developed products is even higher. If any company in this industry, which appropriates about 6% of sales to research, were to cut off research expenditures altogether, it might be able to double dividends for three or four years, but after that it would probably be out of business. The elimination of all research — an unthinkable situation — would mean not mere stagnation but an actual decline in our standard of living, as only improved techniques and new discoveries can maintain adequate output from limited resources, in the face of a constantly expanding population. These considerations are quite aside from the urgent problem of national defense.

Research by Corporations

But realization that research is an absolutely essential ingredient in our modern economy does not mean that all research projects are soundly based, or that the overall research budget may not conceal considerable waste. On the contrary, disturbing evidences of duplication and inefficiency have filtered through the mists that surround the higher planes of research. And, in any case, the huge expenditures already consumed by industrial and scientific experimentation, their accelerating growth. and the likelihood of diminishing returns per dollar spent — all call for a critical examination.

Doubtlessly, considerable duplication of research efforts occurs among private companies. Since long before Dr. Salk released to the public the polio vaccine which bears his name, the Lederle Laboratories of American Cyanamid had been working with a live virus type of polio vaccine which, they had reason to believe, would be superior to the killed vaccine. While the enormous contribution to health made by any effective vaccine is far more important than anyone's dividends, it has certainly been too bad for American Cyanamid stockholders that their vaccine was not first on the market. (It may appear before the end of the present year, and should find a substantial foreign market.) This example is cited merely to illustrate, and not to condemn, a typical duplication of medical research. Such competition is the price we willingly pay for the benefits of our free enterprise system.

Everyone Gets Into the Act in Government Research

Within the very broad sector of research controlled by the federal government, however, the same complacency is not justified. First of all, the main objective — survival — is even more urgent than victory over disease. Secondly, the usual spirit of competition does not, or should not, prevail, as the projects are deter- *(Please turn to page 494)*

Inside Washington

By "VERITAS"

ULTIMATUM from organized labor to farm groups is in the making. The American Farm Bureau Federation at a recent convention in Boston, Mass., went on record for a long list of restrictions on labor including an end to the eight-hour work day. The Farm Bureau also voted to ask Congress to enact a national right-to-work law, to put unions under the antitrust laws, and to give Federal Courts much of the labor-management jurisdiction NLRB now exercises. None of the propositions has even an outside chance of enactment, but Big Labor will ask whether farmers prefer to go it alone in the next Congress, or share the values of labor's influence.

WASHINGTON SEES:

The public school racial integration issue has spread beyond the sociological principles involved to encompass matters touching defense production, and taxation, in a manner which could rebound against the self-styled "liberals" and leave them far out on a limb.

For better or for worse, Rep. Adam Clayton Powell, New York Negro Congressman, has blocked passage of the Federal housing bill although it is a keystone in the "liberal" platform. **Powell insisted on a non-segregation tenancy provision whereupon Southern Congressmen withdrew their support. Industry and many thousands of workers will suffer as a result of a policy** which is being jammed down the throats of Pentagon procurement offices: no subcontracts for defense work in communities which maintain segregated schools. Now, the Administration holds no funds provided in the 1958 National Defense Education Act may go to States which retain segregation in schools or operate "private white schools" in lieu of public education. This could end a large part of Federal aid to subsidized states, forcing them to raise more tax revenue locally. It could speed restoration of Federal and State Governments to their proper areas of taxation and responsibility.

The President's messages to Congress have provided the peg on which the lawmakers could hang legislation recasting those functions.

TAX INCENTIVES are the root of a first-day bill which went to Congress under the aegis of the Foreign Trade Policy Subcommittee, a branch of the Ways & Means Committee. The measure (H.R. 5, Rep. Hale Boggs (d), La.) would create a new foreign investment law. The objective is promotion of American industry overseas, thereby reducing expenditures for foreign economic assistance and other aid programs. The bill grew out of December hearings. "The plain truth is that need for capital by the free nations is far larger than the amounts our taxpayers can provide," Boggs keynoted. Private investment is the alternative, available only with reasonable safeguards.

DECISION on what to do with obsolete military installations is being delayed by studies. Best guess is that no standard treatment will be suggested. Agitation is persistent for use of these premises, after remodeling, for development and production of new weapons, but that runs into the difficulty that building such usefulness into an old plant would be expensive, and inefficient. In some instances the facilities (owned wholly or principally by the U. S. Government) could be used for general lines of manufacture. Several may be put on the market in a trial run of their salability.

CORRECTNESS of President Eisenhower's charge that the last Congress was a spending aggregation of elected public officials is established by the simple arithmetic of the session. The Congressmen met for 138 days. Allowing for an average eight-hour day (which would be stretching matters in their favor) the Senators and Representatives appropriated $1.25 million each minute. The new budget (Ike's) calls for $3 billion more than last year's. And the principal criticism against it heard on Capitol Hill is that it isn't nearly enough money to run the Government next year!

As We Go To Press

►President Eisenhower's secret weapon for balancing the budget is quite simple — possibly too simple: don't spend the money. Congress may appropriate all the money it considers necessary to attain its objective, but unless the President through the Budget Bureau doles it out, it just isn't spent. It is certain that Capitol Hill will vote more money for defense this year than Ike will agree to be expended. Predecessors have wound up Fiscal Years with balances in accounts but Ike appears to be one of the first to claim, and make it stick, that he may ignore a mandate of Congress and refuse to spend a specific appropriation. He does not suggest he has the right to transfer funds among agencies. He contends only that he may rearrange the budget within a department, re-distribute the amount allowed to it.

►The issue first arose in the early Eisenhower years in the White House. Congress envisioned a much larger plane procurement program than the President considered advisable in the light of design improvements coming off the drafting boards. His expressed view was that obsolesence would take too early a toll if the funds were disbursed with the rapidity dictated in the Defense Department appropriation. Some Senators contended Ike was without power to frustrate the will of Congress, stall the program. They intended to force the issue, then, but withdrew when Constitutional authorities among their members advised against it.

►Last year, Congress again appropriated $1 billion more for defense than the President had requested. For the first five months of the current Fiscal Year (beginning July 1, 1958), the President didn't move one cent of the fund into the areas marked out by the lawmakers. Recently he authorized the Navy to begin construction of a Polaris missile submarine. The situation recalled to political historians President Thomas Jefferson's refusal to authorize a contract to build a new Mississippi River gunboat. While excessive spending was not the White House complaint at that time, the principle of a Presidential whip hand was involved. Jefferson's action didn't bring about a showdown.

►The President must have anticipated a heavier defense appropriation than he believes the country needs, when he went to great lengths to explain to Congress the strength and readiness available to meet the Russian military threat. That was in the State of the Union Message and the words of assurance spoken were firm and definite: "Over these many months I have personally participated in its (the defense budget's) development." He warned against useless expenditures in the name of security and counseled that "needless duplication of weapons and forces must be avoided."

►The necessities of the world situation raise doubt whether Ike can substantially reduce the Congressional budget for defense. Or that he will try to cut his own estimates which build to 60 per cent of anticipated Federal spending in the next Fiscal year. The Joint Chiefs of Staff have publicly stated their support of the program as it is being carried out, and projected, but this does not bind officers in charge of research, production and procurement from expressing jittery views on the adequacy of the program. In a hassle with Congress last year, the Pentagon was maneuvered into a position of publicly promising no reprisal will be attempted against any military witness who testifies before Congress in support of a better break for his department or project. On that basis, supporters of bigger-and-better defense plan to build a case and "go to the Nation" if Ike pulls the purse strings too tight.

►If, as expected, the President employs the technique of withholding as a budget-balancing means, he will have a broad area in which to operate. He is in favor of a new and less costly farm bill. He has spoken out against public building

projects as a route to the goal of prosperity. He can prune deeply into these and other programs. But while the President is on constitutionally sound grounds, and may consider that the end justifies the means, he doesn't hold all of the cards. The foreign aid bill, and a sheaf of other measures having to do with guarantees and participation in loans to other countries will be sidetracked by the democratic majority until close to the end of the session. Unless he indicates by word or by action, an intent to follow substantially the rules written by Congress into appropriation bills, he will get less mutual aid money than he considers a prime necessity for security. If the fight gets tough enough, he could get none.

►The apprehensions which the democrats in Congress entertain might be charged off as partisan politics if it were not for the fact that President Eisenhower has used his power to withhold, even in the face of vehement complaints from the Capitol. In fact, Capitol Hill will give Pentagon chiefs a hard time (aimed indirectly at Ike) when they come up for new appropriations and are called upon to justify slowdowns, widespread cancellations of contracts, and "slow pay" to contractors in the last Fiscal Year. The President appeared to be disavowing control over spending when he said in his initial Message to Congress: "The Congress, and the Congress alone, has the power of the purse. Ultimately upon Congress rests responsibility for determining the scope and amount of Federal spending." It is true that Congress lays the taxes, increases the public debt ceiling, and approves Presidential vetoes when it rallies less than two-thirds of its members in opposition. It can eliminate any White House program by denying funds. But while the President cannot spend more than Congress votes, he can spend less.

►The Congressional session is just about one month old but already President Eisenhower has started fires of controversy that will burn white hot through the session. The State of the Union Message found a split reaction following party lines – and the White House must lose in any contest that adheres to party lines in this session. The Budget Message served to add to the big political war, a series of economic brush fires in the farm belt, in the heavily-unionized cities, and elsewhere. The Economic Message renewed controversy in the extremely limited encounter which is possible when a document is read by so few lawmakers as appear to have knowledge of its content. But, as usual, not all agree with the forecasts.

►This is only the beginning of what seems to be shaping up as a session of monumental importance, incessant disagreements. By force of law or by reason of his own inclinations, President Eisenhower will keep the cauldron boiling for several months. The always disputatious subject of taxation – to reduce, to increase, or to instill a degree of equity by plugging loopholes which exist in great number and flagrancy – will be the subject of a tax message which is expected to come so late in the session as to provoke more acrimony than action.

►It is possible to read into the President's comments, suggestion that Federal taxes might even be reduced — some day. At the proper time, he promised, the Treasury will be ready with proposals designed to enhance incentives for all Americans to work, to save, and to invest. Such recommendations, Ike said, would be made "as soon as our fiscal condition permits." A balanced budget next Fiscal Year might hasten that day, Congress has been told. This, of course, is not a promise; it isn't even a suggestion, except in the vaguest sense. This much is certain: The House Ways & Means Committee does not intend to wait for a White House signal. Any day now, Chairman Wilbur Mills is expected to appoint a subcommittee on revision of the tax laws.

►The President's public statements that too much money has been spent and is being doled out now without relieving the farm surplus problem, can mean only one thing: a less liberal farm plan. That, in turn, can have but a single result: a knockdown, drag out legislative fight. The democratic majority has been winning Senate and House seats in the farm belt. To hold them, and increase the number, is a requisite to success in the 1960 national election. Other trades may be hurt in the current Congress but the farmer, for a certainty, will not be distressed.

1959 Import-Export Outlook For American Business

By John Metcalf

U.S. TRADE prospects for 1959 are now viewed with guarded optimism. International trade in general has started to recover from last year's temporary slowdown. Foreign commerce of the United States held up far better than was expected in view of the recession here. Now, with world economic expansion being resumed, both U. S. exports and imports are expected this year to register gains close to $1 billion.

Preliminary returns indicate that U. S. commercial exports last year were a bit over $16 billion. This was about 15% less than the record high attained in 1957. But it should be recalled that U. S. exports in '57 were abnormally inflated by the Suez crisis, stepped-up sales of surplus farm products, and the worldwide investment boom. Even so, 1958 exports were not far from the level of our second best year which was 1956 (see chart), and this year they will probably equal that mark.

U. S. imports last year were only a shade under the record total of $13 billion set in 1957. While our foreign purchases of raw materials declined due to the recession, imports of consumer goods actually increased. The latter was yet another example of the sustained level of purchasing power in this country despite the drop in economic activity. With imports in both categories increasing this year, the total will soar to a new high.

Despite this encouraging record, 1959 looms as a critical year for U. S. foreign trade. A number of factors are causing uncertainty in the export picture. Although the United States is expected to share in the growth of world trade, the outlook is for stiffer competition. Among the developments making for a keener trade rivalry are:

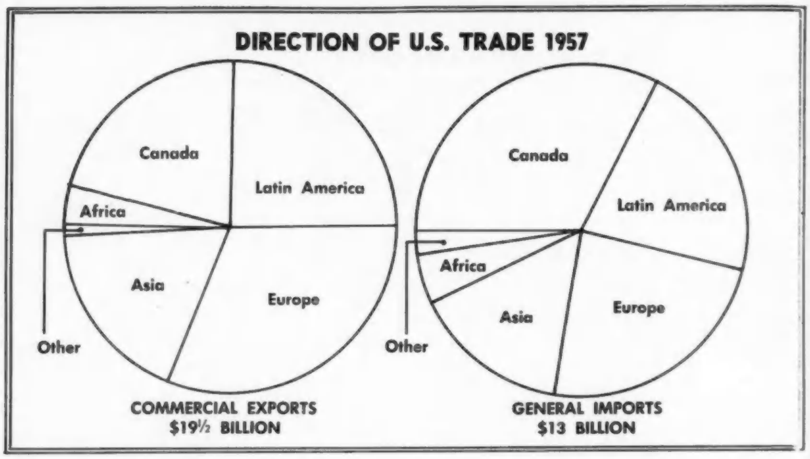
* Continued progress toward the European Common Market goal of an economically powerful new trading block.

* Recent dramatic steps toward freer convertibility of Western European currencies designed to broaden markets and encourage price competition.

* Lingering doubts as to the future of inflation in this country which might price American goods out of foreign markets.

* The unpredictable effects of the Soviet Union's stepped-up economic aid and trade offensive.

* Reduced import demand in some overseas areas as a result of further belt-tightening by commodity exporting countries still recovering from low price levels.



Regional Prospects for 1959

Strengthened foreign exchange reserves in Europe and the revival of industrial production there, after some slack in 1958 indicate an increase in U. S. exports to **Europe** during 1959. Initial steps toward creation of the Common Market, discussed below, will have more effect on future U. S. trade than in the present year.

The year-end action of 13 Western European countries making their money freely convertible to dollars or other currencies for non-residents was a declaration of economic strength. It serves to emphasize Europe's growing self-confidence. At the same time, it creates uncertainty for U. S. exporters. Whether this new monetary freedom will lure extra business to the United States or elsewhere is being widely debated. Some gain for the United States will probably result if price levels here remain steady.

U. S. exports to **Canada** are strongly influenced by investment of American capital there. Ending of the recession here may signal a stepped-up flow of U. S. funds into development of Canadian natural resources. Thus our exports to Canada will show some increase over the reduced level of 1958.

Elsewhere in the Western Hemisphere, the export outlook is not so bright. Most **Latin American countries** have suffered large foreign exchange losses as a result of commodity price drops during the past two years. Unwise economic policies have caused further strain and discouraged U. S. investors. Although commodity prices have lately shown improvement, it will be some time before the backlog of commercial debts has been worked down sufficiently to liberalize imports. Meanwhile, we may expect growing pressure for U. S. participation in global price-propping schemes to aid raw material producing countries.

U. S. exports to **Japan** dropped sharply last year, reflecting the stringent measures that country took to reverse an unfavorable trade balance. Now, with foreign exchange reserves augmented and raw material inventories worked down, some relaxation of controls is taking place. Thus a modest increase is expected this year in U. S. exports to Japan of industrial commodities.

Elsewhere in **Asia,** as in Latin America, export prospects are less promising for 1959. In the long run, this densely populated region holds great opportunity for American businessmen, although price competition will be keen. For the present, however, capacity to import has been jeopardized by attempts at too rapid industrialization. The Philippines, India, Pakistan, Turkey, and other countries have unwisely over-emphasized foreign exchange "saving" industries at the expense of domestic food production, and export industries which would have *earned* foreign exchange. As it turned out, the savings involved are more than offset by the required imports of capital goods and raw materials to run the new industries, which often are high cost producers.

U.S. FOREIGN TRADE: 1956-1959

(Billions of Dollars)

	1956	1957	Prelim. 1958	Antic. 1959
COMMERCIAL EXPORTS: *				
Foodstuffs	$2.7	$2.7	$2.5	$2.7
Others agri. products	1.5	1.8	1.5	1.6
Other consumer goods	1.6	1.6	1.5	1.6
Subtotal above	5.8	6.1	5.5	5.9
Industrial raw materials	5.9	6.9	5.2	5.1
Capital equipment	5.2	5.9	5.1	5.6
All other items	.3	.4	.4	.5
Subtotal above	11.4	13.2	10.7	11.2
Grand Total	17.2	19.3	16.2	17.1
GENERAL IMPORTS:				
Food & beverage	$3.2	$3.3	$3.4	$3.5
Other farm products	.4	.5	.6	.6
Other consumer goods	1.3	1.5	1.6	1.8
Other items..	.2	.3	.3	.3
Subtotal above	5.1	5.6	5.9	6.2
Petroleum & products	1.2	1.5	1.8	1.7
Paper products	1.0	1.0	.9	1.0
Other industrial materials	5.0	4.6	3.8	4.5
Capital equipment	.3	.3	.4	.4
Subtotal above	7.5	7.4	6.9	7.6
Grand Total	12.6	13.0	12.8	13.8

* Military aid equipment excluded.

Some Commodity Changes

About half of the anticipated $1 billion increase in U. S. exports this year will be machinery and capital equipment (see table), with Europe accounting for much of this. In contrast, exports of industrial materials will probably decline slightly, reflecting reduced coal and steel shipments to Western Europe and some drop in raw cotton sales. Motor vehicle exports will likely continue the downward trend as foreign buyers seek more economical cars. Shipments abroad of foodgrains, fat & oils, and other farm products are expected to increase slightly, under mounting pressure of surplus stocks here.

About 70% of the $1 billion increase in U. S. imports expected this year will comprise industrial raw materials. Greater imports of pulp & paper, construction timber, and nonferrous metals are anticipated, reflecting stepped-up activity here. Because of government restrictions, however, petroleum imports will be less than last year despite larger U. S. demand for oil products. Coffee and sugar purchases will probably increase in volume during 1959 (since inventories are at low levels), though not in value. Some decline in imports of Canadian cattle and other agricultural products is expected.

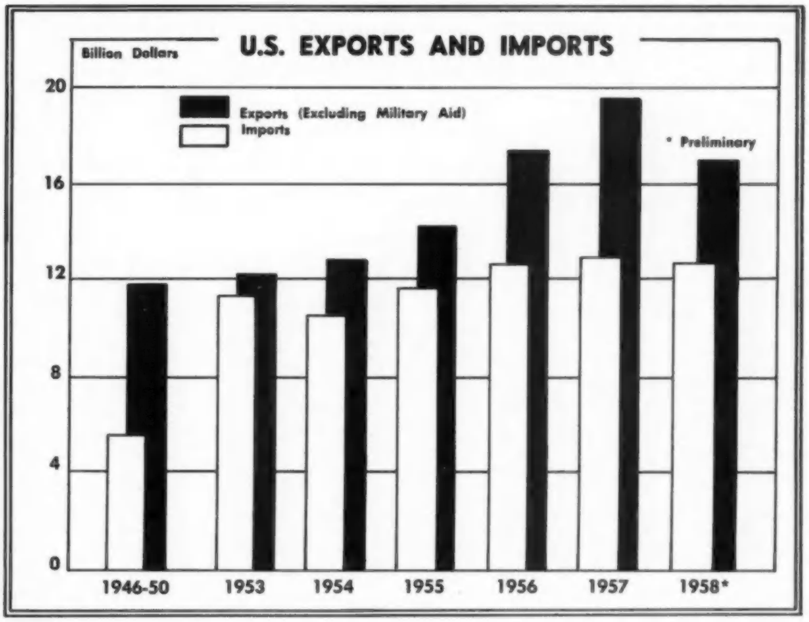
One can expect to find an increasing volume of foreign merchandise in local department and variety stores over the coming years. Imports are popular at the consumer level and generally give retailers larger profit margins. Favorite items currently are wearing apparel, leather goods, toys, bicycles, glassware, and more recently radios. Foreign car imports are bound to increase during 1959, rising perhaps to 425,000 compared with about 375,000 last year. Although U. S. manufacturers are planning to turn out more smaller cars, they are not likely to be small enough or cheap enough to compete effectively with the European economy models.

Impact of the Common Market

Western Europe's epic journey on the road to a Common Market has profound significance for the United States. The eventual objectives of this economic union are so bold as to have been dismissed as visionary a decade ago. The six member countries plan, over a 12 to 15 year period, to eliminate all internal barriers to the free flow of trade, capital, and labor among themselves. In so doing they will obtain maximum benefit from regional specialization and the economies of producing for a mass market equal to about the size of that of the United States. The resulting mutual dependence will dictate common monetary and fiscal policy and a close harmony of political objectives.

For the United States, the Common Market timetable means a gradual widening tariff disadvantage as customs duties among the Six are lowered. An initial result is that they will be buying more from each other instead of from us. But more important, in the long run,are the expected cost savings for European industry as integration and specialization are achieved. The competitive advantage that Europe thus gains will make some U. S. sales even more difficult there and in other markets where the two compete.

However, this is only one side of the picture as far as the United States is concerned. The principal reason for the European Common Market is "strength in numbers." The Six can achieve far greater economic strength and prosperity collectively than through individual efforts. The rising income and higher living standards that result will mean a greater capacity to consume, and hence to import. So world trade, and trade with the United States, is likely to increase in the long run.



Although some of our present exports to Western Europe will no longer be able to compete with mass produced European goods, other U. S. manufacturers will find a growing market there. Herein lies the cause of uncertainty for American businessmen. For many types of U. S. products it is impossible yet to foresee how soon and to what degree sales in Europe will be affected.

For a growing number of U. S. industries, the response to these events in Europe is rather neatly summed up by that old Yankee maxim. "If you can't lick them, join 'em." In this case it means establishing branch plants and subsidiary operations within the territory of the European Common Market, and thus benefiting fully from all tariff reductions and other advantages. Germany and the Netherlands are particularly favored in this respect.

By acting now, U. S. companies are getting in on the ground floor to take *(Continued on page 499)*

OIL and POLITICS in Strategic SOUTH AMERICA

- **Varying costs to individual oil companies under Venezuelan problems**
- **The new opportunities opening in Argentina and Companies involved**

By John H. Lind

UNITED STATES oil companies have traditionally considered Latin America the most logical area for foreign investments. Historically, the main reason for this was the relative proximity of most Latin American oil-producing countries to the United States. This meant that oil found there could be taken at no great cost to the United States, either for domestic consumption in form of imports or for re-exports after refining in one of the U. S. seaboard refineries.

America's interest in Mexican oil, which started before World War I, was based mainly on these considerations. In the immediate post-World War I period an additional incentive was the then prevailing belief that the United States would soon run out of oil. Much has changed since then in the U. S. oil industry. Mexico, which once supplied us with nearly 25 percent of our oil needs, expropriated all foreign oil companies in 1938 and has since then changed from a net exporter into a net importer of oil. At the same time America's own oil reserves have turned out to be much larger than had been realized 25 years ago. Yet, U. S. oil investments in Latin America have continued to grow almost without interruption. At present they amount to the formidable sum of \$3.4 billion and represent, by far, the largest U. S. investment sector in Latin America. The earnings from oil investments amounted to \$708 million in 1957, or 21 percent of their book value. This compares with an 18 percent ratio of earnings to investments for total U. S. foreign oil investments. Thus, oil investments in Latin America are not only large, they are also very profitable.

The Venezuelan Situation

The bulk of all U. S. oil investments in Latin America is, of course, found in Venezuela which accounted in 1957 for \$2.2 billion, or 66 percent of total oil investments in the area and showed net earnings of \$613 million, equivalent to nearly 30 percent of the book value of the investments. Venezuelan oil earnings are thus extremely high. This was the main reason why foreign oil companies spent about \$690 million in cash bonuses for new concessions in 1956 and 1957.

For 1958, foreign oil earnings in Venezuela had been expected to be somewhat below those of 1957 because of a slight decline in production from the all-time peak attained during the Suez crisis when Venezuela for a brief period displaced the Middle East as Europe's principle oil supplier. However, in view of the recently enacted increase in the Venezuelan income tax the decline in earnings will be rather more than had been anticipated.

Briefly, oil corporations in Venezuelan pay three separate income taxes, consisting of a 16.6 percent royalty, a 2.5 percent regular income tax and a surtax. It was this surtax which was changed by the recent decree from a range of 1.5-26 percent to a range of 2-45 percent, depending on the level of earnings. Thus, the new tax does not rigidly set the government's share of the oil companies' earn-

American Oil Companies Active in Latin American Countries

	Net Sales 1957 —(Mil.)—	Net Earnings Per Share 1957	1st 9 Months Net Sales 1957 —(Millions)—	1st 9 Months Net Sales 1958 —(Millions)—	1st 9 Months Net Earnings Per Share 1957	1st 9 Months Net Earnings Per Share 1958	Estimated 1958 Earnings Per Share	Indicated Dividend *	Price Range 1958-59	Recent Price	Yield Div.
Atlantic Refining	$ 565.9	$3.82	$ 422.8	$ 388.3	$3.15	$2.02	$3.15	$2.00	48¼-34	48	4.1%
Creole Petroleum	1,114.6	5.11	(NA)	(NA)	4.11	3.21	4.25	3.60	78⅞-58¼	63	5.7
Gulf Oil	2,730.0	11.38	(NA)	(NA)	9.32	6.31	9.00	2.50[4]	129 -101	125	2.0
Phillips Petroleum	1,131.8	2.80	855.7	776.7	2.16	1.68	2.40	1.70	49⅝-36⅜	48	3.5
Royal Dutch	4,440.0[3]	5.89	3,318.0[3]	3,205.9[3]	4.62	2.79	4.00	1.31	53¼-37¼	46	2.8
Sinclair Oil	1,251.0	5.18	940.2	874.0	4.11	2.31	3.50	3.00	66⅜-46⅜	63	4.5
Socony Mobil Oil	2,976.1	4.16	(NA)	(NA)	3.69	2.39	3.60	2.00	52½-44½	48	4.1
Standard Oil of Calif.	1,650.0	4.56	1,260.4	1,175.4	3.35	2.97	4.00	2.00	61¾-43¼	59	3.3
Standard Oil of Indiana	2,010.1	4.24	1,529.9	1,380.7	3.21	2.42	3.50	1.40[5]	50 -35½	49	2.8
Sun Oil	771.6	4.17	584.7	532.1	3.63	1.98	2.85	1.00[4]	69 -59	63	1.5
Superior Oil Co. (Calif.)	109.7[1]	39.20[1]	(NA)	(NA)	8.93[2]	20.87[2]	39.20[1]	3.00	1960 -1360	1910	.15
Texas Co.	2,344.1	5,94	1,773.8	1,730.2	4.43	3.90	5.50	2.35	89 -55¾	85	2.7

N.A.—Not available.
*—Based on latest div. rate.
1—Year ended Aug. 31, 1958.
2—Quarters ended Nov. 30.
3—Represents approximately 60% of its proportional share of the Royal Dutch-Shall group of Cos.
4—Plus stock.
5—Plus 1/200 share of S.O.N.J. stock with cash value of $0.30 a share.

ings at 60 percent of profits, as has been stated in many recent newspaper articles, just as the previous tax rate did not set the government's share at exactly 50 percent of profits. In 1957, for instance, the government's take amounted to about 51 percent of total profits, while the payments of Creole Petroleum, a Jersey subsidiary and Venezuela's largest oil producer, amounted to 56 percent of its net earnings.

For 1958, the first year for which the new tax applies, it will give Venezuela a 60 percent share of profits. But if oil production in 1959 should substantially increase, the government's total take may well climb to 65 percent. In its first year, the additional taxation will cost the oil industry an extra $170 million and will bring Venezuela's total oil tax and royalty receipts to about $950 million.

There is no doubt that the higher tax rate will have some effect on the foreign oil companies in Venezuela. For one thing, on a per-barrel basis, the increase amounts to about 20¢, or some 7.5 percent of average posted price of Venezuelan crude oil. Since there is a world-wide over-supply of oil, it may be difficult for the companies to pass the additional cost factor on to their purchasers. Middle East oil is already considerably cheaper than Caribbean oil and any increase in the price spread between these two principal oil export areas would seriously hurt the marketability of Venezuelan oil.

Cost to the Companies

Thus, the companies will have no choice but to absorb the new taxes. For some of the big companies this will be rather expensive—**Creole** alone will have to put up an extra $90 million for 1958—but the overall profit structure of the oil industry is certainly healthy enough to permit the absorption of this new expense without a significant effect on future operations. Outside of Creole, (and its parent company Jersey Standard) the most important affected U. S. companies are **Gulf Oil**, the owner of Mene Grande Oil Company which is the country's third largest producer; **Socony Mobil; Standard of California** whose Venezuelan subsidiary is Richmond Exploration Company; the **Texas Company** which has its own producing subsidiary in Venezuela and in addition has a half interest in Mercedes Petrolera; and **International Petroleum** which has a 25 percent interest in the production of Mene Grande. The only non-U. S. oil companies in Venezuela are Shell Venezuela, a member of the **Royal Dutch/Shell group** and **Ultramar Company**, a British concern which owns half the production of Mercedes Petrolera. For the respective production of each of these companies see the table in the text.

What Next?

For all these companies, plus the many newcomers, Venezuela will probably continue to be a highly attractive investment field, despite the bite of the additional tax. The question is whether the government has now completed its long-predicted revision of oil industry taxes or whether the recent increase is merely a first indication of things to come. The answer lies, of course, mainly in the field of politics. The recent tax increase applied to all business concerns and individuals in Venezuela. It did not single the oil industry out, as has therefore been charged by some companies (though the burden of the increase falls largely on the foreign oil and iron ore companies, since they are virtually the only ones in a high enough earnings bracket to qualify for the top tax rate).

It is possible that the new president, who comes to power in February, will feel that the special problem of Venezuela's share of the oil profits has not been settled by the recent *general* tax hike. If so, the possibility of further increases exists. In this connection, the recent statement by Creole's president H. W. Haight *(Please turn to page 497)*

★ FIRST HAND REPORT ON...

Shifts in DEFENSE SPENDING

By Allen M. Smythe

MILITARY procurement in 1959 will be more directly affected by shifting emphasis on weapons systems including the coming into production, and operational status, of those projects just emerging from intense development, than it will be by Federal economy or the outcome of the contest between the "spenders" and the "savers".

Whatever happens to other budgetary items, national defense is not likely to suffer. It will be surprising, indeed, if the total outlay is not well over the aggregate spending of fiscal year 1958.

Some defense contractors will feel the pinch of developments. Some already have. On the other hand there will be beneficiaries of technical breakthroughs and new scientific discoveries.

The President in press conferences and messages to Congress emphasized the need for the new missiles and the spaceships, and also stressed that they must be procured at the expense of less modern weapons. They must supplant, not supplement, other weapons if the nation is to remain solvent. The Pentagon has already started to carry out the President's orders.

The President's Approach

At this point it might be interesting to analyze the President's attitude on future defense spending. Under the law he is commander-in-chief of our armed services. His experience and background gives the nation and our allies confidence in his viewpoints. Recently he has been giving detailed attention to our military problems and has stressed this point.

His chief goal is a dynamic national defense, thoughtfully and sensibly planned. His secondary aim is increased efficiency and the avoidance of waste. He has stressed that the cost of the new weapons is tremendous, even when compared with the marvelous resiliency and capacity of our country.

He states: "Such expenditures demand both balance and perspective in our planning for defense. At every turn we must weigh, judge and select. Needless duplication of weapons and forces must be avoided. We must guard against feverish building of war armaments to meet glibly predicted

moments of so-called "maximum peril."

To the embarrassment of the Pentagon, the President has been inclined to accept the Treasury's figures on defense costs. The Treasury gives total expenditures and total estimated costs. The Pentagon is inclined to emphasize minimum production costs.

Total Cost vs. Part Cost

An example occurred in the State-of-the-Union address to Congress. The President stated that the *over-all cost of* the Atlas ICBM *would average $35 million per missile* on the firing line. Last January the *Air Force testified* before Congress that the production *cost* of Atlas or Titan after the original order was completed *would be $1.8 million per-missile.*

Incidentally, this figure released to newsmen for the first time the classified number of ballistic missiles on order. Previously given out was $3 billion for the total cost of the project. Simple arithmetic gives an answer of 90 Atlas', or sufficient for nine squadrons.

The President also has stressed the importance of missile development. *He estimated that a total of $7 billion* would be spent on such projects. The *Pentagon* had *disclosed that expenditures* for missile hardware, i.e., contracts to military contractors, *would be at half this amount.* Research, construction of launching sites, transportation, and other costs make up the other half.

Pentagon consternation rose to great heights when they read the President's statement that "certain bombers cost their weight in gold." They thought the President might be referring to the Air Force B-58 medium bomber or the Navy A3J carried bomber.

Defense officials for the first time hastened to show high costs for their weapons. They pointed out that if all expenditures on the B-58 were charged to the planes so far produced the cost would be $26.7 million per plane. However, with a flyaway weight of over 160,000 pounds this does not approximate the $35 per ounce for gold.

North American Aviation has a contract for 25 A3J Mach 2 carrier bombers for development and testing purposes. They weigh 31,000 pounds and total costs would average $17 million per plane. However, Navy and company officials say the production price is $5 million per plane which would make them cost about eleven times their weight in silver.

The President also in recent speeches and conferences has cautioned that ordinary submarines now cost $50 million and that those of the Polaris-type cost over three times as much. He has often used the old analogy that modern fighter aircraft fly twice as high, over three times as fast, and cost 50 times as much as the fighters of World War II.

There is an implied threat that if Congress appropriates greater amounts than his budget request the President will again exercise his constitutional authority and not spend the money. *All of this indicates that industry must expect some heavy shifting of funds from conventional armament to the new modern and scientific weapons of today.*

Armed Forces' Accounting

The three armed services list all weapons on a priority basis. Quarterly expenditure and projected costs enable the comptrollers to determine what projects can fit into the appropriations available. A change in priority or an increase in cost of a top priority item can affect all weaponry of lower importance. It can cause stretchouts, hold-ups, and cancellations of lower priority items. Similarly, a performance failure of a high rated weapon could release funds to start production of others marking time after successful development.

Program Changes Too

Variations in the international climate may, and do, bring about program changes. An example of this occurred last spring when it was learned that the Soviet was deemphasizing heavy bombers and increasing their ballistic missile projects.

Department of Defense

NEW OBLIGATIONAL AUTHORITY, DIRECT OBLIGATIONS AND EXPENDITURES

Fiscal Years 1958-1960

(Millions ofDollars)

	New Obligational Authority			Direct Obligations			Expenditures		
	FY 1958	FY 1959	FY 1960	FY 1958	FY 1959	FY 1960	FY 1958	FY 1959	FY 1960
Department of the Army	7,731	9,343	9,357	9,725	9,719	9,907	9,051	9,165	9,264
Department of the Navy	10,506	11,798	11,370	11,511	12,510	12,081	10,906	11,472	11,596
Department of the Air Force	17,732	18,717	18,682	19,151	19,896	19,308	18,435	18,993	18,675
Office of the Secretary of Defense	777	1,279	1,441	656	1,310	1,411	669	1,170	1,410
TOTAL	36,747[a]	41,138[a]	40,850[a]	41,042	43,435	42,707	39,602	40,800	40,945

NOTE: Includes proposed FY 1959 Supplemental of $294.2 million:

Army	51.7	million
Navy	127.6	"
Air Force	108.8	"
OSD	6.1	"

[a] In addition, new obligational availability to be derived by from revolving funds, as follows:

	FY 1958	FY 1959	FY 1960
Army	400	375	200
Navy	190	160	90
Air Force	—	—	50
Total	590	535	340

Department of Defense

NEW OBLIGATIONAL AUTHORITY, DIRECT OBLIGATIONS AND EXPENDITURES

Fiscal Years 1958-1960

(Millions of Dollars)

Budget Category	New Obligational Authority FY 1958	FY 1959	FY 1960	Direct Obligations FY 1958	FY 1959	FY 1960	Expenditures FY 1958	FY 1959	FY 1960
OPERATING COSTS	21,892	22,366	22,546	21,884	22,349	22,561	21,673	22,462	22,432
Military Personnel	10,398	10,720	10,642	10,386	10,666	10,642	10,440	10,636	10,617
Reserve Components	1,204	1,183	1,153	1,172	1,207	1,162	1,185	1,204	1,164
Operation and Maintenance	9,369	9,436	9,633	9,424	9,438	9,639	9,113	9,570	9,542
Establishment-Wide Activities	921	1,027	1,118	902	1,038	1,118	935	1,052	1,109
Retired Pay	(567)	(645)	(715)	(561)	(645)	(715)	(562)	(645)	(715)
Other	(354)	(382)	(403)	(341)	(393)	(403)	(373)	(407)	(394)
CAPITAL COSTS	15,315	19,306	18,615	19,157	21,086	20,147	18,112	18,578	18,849
Major Procurement & Production	11,399	15,325	14,398	15,755	16,459	15,914	14,677	14,234	14,596
Aircraft	(5,726)	(6,345)	(6,353)	(8,237)	(7,451)	(6,948)	(8,448)	(7,117)	(6,589)
Missiles	(2,313)	(4,345)	(3,961)	(3,391)	(4,347)	(4,126)	(2,737)	(3,360)	(3,922)
Ships	(1,781)	(1,977)	(1,343)	(1,760)	(1,931)	(1,721)	(1,156)	(1,418)	(1,643)
Other	(1,580)	(2,658)	(2,742)	(2,366)	(2,730)	(3,118)	(2,336)	(2,340)	(2,441)
Research and Development	1,912	2,639	2,711	1,847	2,702	2,711	1,742	2,355	2,594
Military Construction	2,004	1,342	1,506	1,556	1,925	1,523	1,693	1,988	1,660
WORKING CAPITAL FUNDS	130	—	30	—	—	—	—723	—240	—336
Subtotal	37,337	41,673	41,190	41,042	43,435	42,707	39,062	40,800	40,945
Available by Transfer	—590	—535	—340						
Total	36,747	41,138	40,850	41,042	43,435	42,707	39,062	40,800	40,945

NOTE: Includes proposed FY 1959 supplemental of $294.2 million.

The Pentagon decided not to use extra funds Congress appropriated for the extended production of the heavy bomber B-52 and its aerial refueler, the RC-135. Both were made by Boeing which was rapidly reducing costs at the end of a volume production order. To cancel at this time would prove expensive. The medium bomber B-58 (Convair), tested and approved, was given further tests and evaluation. A total of 66 was ordered under several contracts, to keep the organization functioning. The price was high, around $18 million per plane, which could be reduced to around $10 million if several hundred were ordered.

The dual approaches to this nation's long range ICBM project, the Atlas (Convair) and the Titan (Martin) have been given further emphasis. Both are liquid propelled, thus necessitating complicated and expensive production, installation and maintenance problems.

Costs and Plans for Alternate Weapons

A contract for a simpler, smaller "second generation" ICBM, the Minuteman, was entrusted to the Boeing Co. It has a solid propellant and carries a new small atomic warhead recently developed by the Atomic Energy Commission. It can be fired from an underground site and will be far less expensive than the larger ICBM's. Defense officials are talking now of production in the hundreds in three or four years.

The Navy has given top priority to its 1500 mile range, solid propelled Polaris (Lockheed) and its carrier submarines. Designed to be fired under water it will add to this nation's offensive strength. The cost of this project will probably average a half billion annually for the next several years.

The launching of the Soviet artificial planet Mechta confirmed unequivocably that the Soviets have rocket engines more powerful than anything in this country. *However, this superiority is important only in the launching of spaceships. In the ballistic missiles race only enough power is needed to hurl a small atomic warhead from one hemisphere to another. America has this capability.*

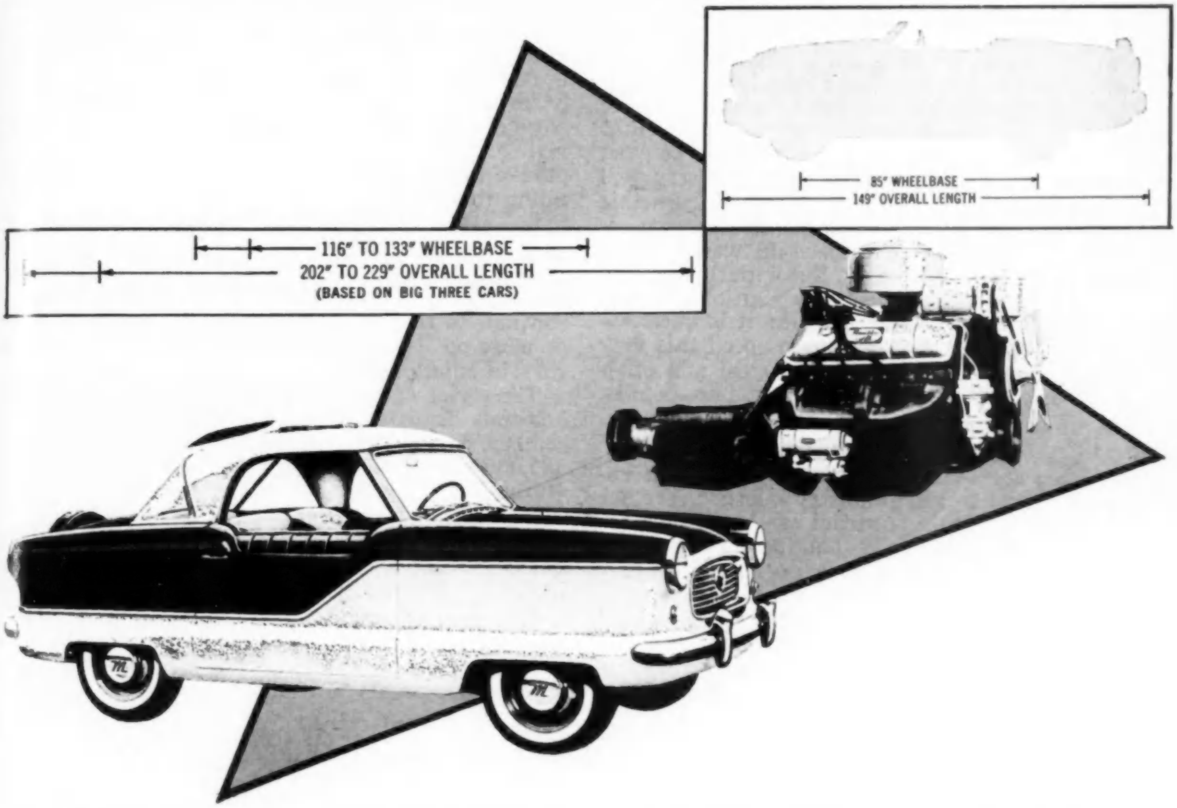
In order to shift additional funds to these ballistic missiles a number of duplicate and less important projects were reviewed. A number have already been eliminated. More casualties are on the way.

A decision was reached to halt production of the intermediate range Thor (Douglas) and Jupiter (Chrysler) after four squadrons for England and three for Italy were supplied. The Navy held up ambitious and costly plans for the Seamaster (Martin), a fast, long range seaplane.

The Air Force after some recent hesitancy apparently is going ahead with the B-70 chemical bomber and the long range fighter F-108. Both are Mach 3 all steel aircraft under contract to North American. Boeing is reported to have been given a subcontract for the steel honeycomb wings of the B-70. Lockheed is reported to have been awarded the wing subcontract of the F-108.

The Goose, a surface-to-surface decoy missile was cancelled. This $240 million contract would have kept the four divisions at Fairchild at capacity for several years. The extra expense of launching sites was a factor in the decision. The Quail, a smaller decoy missile that can be launched from a plane will be put into production by the McDonnell Co.

The Rascal (Bell) air- *(Please turn to page 491)*



Realistic and Authoritive Forecast of... Prospects for AUTO Industry

By SIDNEY L. WATERFORD

WHEN a cyclical industry has hit its lowest point in ten years, as the auto industry did in 1958, even the first indications of an upturn are often regarded by overenthusiastic commentators as proof that normal sales and earnings will soon be restored.

The auto industry has apparently passed its lowest point in sales, assuming that the business pick-up will carry to higher levels in 1959. Conditions for the industry should slowly improve this year. But some of the industry's major problems remain to be solved. Despite the moderate improvement in sales that has occurred, from the low point of last year, it appears that 1959 will be another subnormal year when judged against the results for 1954-1957.

Hence, it may be assumed that the recent rise in securities of automotive companies must have been based on long term hopes, rather than on near term facts. It is easy to over-estimate sales results achieved in December, 1958 as well as in January, because the auto industry's strikes which closed major plants for extended periods in the last quarter have distorted the statistical sales picture. The strikes curtailed production and sales sharply in October and November—and for Chrysler in December—and thus deferred demand until later months. Nevertheless, dealers' inventories of new 1959 model cars have been rising steadily since November, indicating that the public is not as eager to buy cars as it was in many good auto years, since World War II. In such years, cars were snatched up eagerly, regardless of whether they matched consumer specifications on color, optional equipment, etc. That is no longer true.

Auto production last year totaled only 4,244,005 units, against 6,115,461 in 1957.

The improvement that has occurred in the auto industry since November has been more noticeable in production and deliveries to customers, than in new order bookings. Many car deliveries in December were based on orders booked in October and November by dealers, following the initial announcement and heavy advertisement of the new 1959 models. In short, during the period of labor trouble, dealers built up order backlogs. Now those backlogs have been largely used up, as a result of recent heavy deliveries. From here on, the auto industry faces the necessity of gearing up a massive sales effort, if deliveries are to equal the December figures of about 489,000 cars.

Hence, calm appraisal of recent sales trends does not reveal a basis for a sharp uptrend in sales this year to the levels of 1954-1957, when dealers delivered 550,000 to 600,000 cars a month for relatively long intervals. A test of the true state of the market still lies ahead, but it is already clear that 1959 will not be a boom year and may not be even a normal year for auto makers. The industry will do well to make and sell 5 to 5.2 million cars this year unless a speed-up in the general economic recovery takes place. Such a speed-up would instill confidence and help to sell cars. But with the Federal Reserve Board ready to meet any sign of renewed inflation with tighter money policies, it is questionable whether the recovery will gain speed this year particularly since major strikes in steel and other industries loom ahead during the next few months.

Here are the specific problems facing the auto industry:

1. A large segment of the public still is not enthusiastic over the auto industry's larger, costlier 1959 model cars. Many potential car buyers are intrigued with the economies obtainable in smaller compact automobiles. They are also not thoroughly sold on high horsepower V-8 engines such as are featured in over 70 per cent of current 1959 model cars. In view of the steady rise in gasoline taxes and gasoline prices, the public might be willing to buy more economical lower horsepower 6 cylinder engines, when these are offered.

2. These consumer trends mean a possible dilution of auto companies' earning power, at least partially off-setting any gain in volume of sales. Smaller, lower horsepower cars mean lower dollar sales.

3. The interest in small cars is forcing Big Three car producers to tool up for introduction of new compact-type cars late next Summer. But it remains to be seen how successful the new models will be, in competition with the well-established Rambler of American Motors and with Studebaker-Packard's Lark, as well as over forty imported small cars.

4. If announcement of the new compact cars is made in May or June, which would seem to be the latest date for launching a publicity campaign in behalf of such new cars, the effect on sales of the present lines of 1959 model cars could be adverse. The public may take a "wait and see" attitude—deferring purchases until the new compact cars have been shown. In any event, the new small cars will tend to draw consumer interest and buying power away from the higher priced and more profitable larger cars.

Analysis of Current Production

Production of cars during December and early January has been running ahead of the same period a year ago. This has been caused primarily by two factors: First, the general recession of 1957-1958 resulted in sharp cutbacks in auto buying. With the improvement in general business confidence, a moderate rise in production in 1959—possibly 10 to 15 per cent over 1958—seems warranted. At such a time, consumers normally resume purchases which have been deferred. But car output this year will be subnormal compared with the four years prior to 1958. In this period production averaged 6.5 million a year.

The second reason for the higher rate of output is related to the auto industry's labor difficulties in September and October. Strikes cut output sharply for several weeks. Inventories of 1958 model cars were cleaned out, and 1959 models were slow in arriving. During December, as well as in the early part of this year, the auto assembly plants have been filling the pipelines.

Inventories of new cars in dealers hands have been steadily rising—from under 300,000 on Nov. 1, to 451,000 cars on Dec. 1, and to over 550,000 cars on Jan. 1. In February and March, inventories will continue to rise, possibly reaching a level of 750,000 or more on April 1, unless a substantial upturn occurs in retail sales.

The series of crippling auto strikes late last year has thus distorted the picture on sales. During December, car retailers delivered to customers around 489,000 cars—substantially more than subnormal November of 1958.

Production in December was 593,000 cars, indicating a rise in inventories of 104,000 cars for the month, in spite of the fact that dealers were delivering many cars on orders booked in previous months.

Either production will have to be cut back gradually, within two or three months, or sales will have to show improvement over the levels of December and early January. Inventories cannot continue to rise at this rate during the entire first half. Normally, a slight seasonal upturn in sales should occur in February and March, but it cannot be said with any assurance that it will occur this year.

Car manufacturers are tentatively scheduling production in January of 595,000 cars, about 22 per cent more than the 489,357 cars which were built in January, 1958. The higher production rate is accounted for largely by the fact that the car manufacturers feel that inventories are not high enough as yet to assure a maximum sales effort by dealers. Competition is particularly keen between Ford and General Motors, and in the battle for sales leadership, dealers are being encouraged to stock cars more heavily, so that they will have a wide selection of cars for potential customers. But this does not mean that sales are booming as yet.

In the light of statistics currently at hand, it is too early to say whether the auto industry will sell substantially over 5 million cars in 1959. The actual sales pace maintained in December (as measured by deliveries by dealers to customers) was apparently close to 5.5 million, but a good proportion of the cars delivered had actually been ordered in the two preceeding months. The true level of demand will not be apparent until stocks of cars reach a peak level, and dealers attempt each month to book new orders of about 500,000 cars or more. Such a level of bookings would be needed to assure a 5.5 million car year, making allowances for seasonal declines in the Summer months.

The Big Three

Several basic problems still remained to be solved by the Big Three producers—General Motors, Ford and Chrysler.

The most important problem is the growing threat

Position of Leading Automobile and Truck Manufacturers

	1957 Net Sales (mil.)	1957 Earnings Per Share	1st 9 Month Net Sales 1957	Net Sales 1958	Net Profit Margin 1957	Net Profit Margin 1958	Net Earnings Per Share 1957	Net Earnings Per Share 1958	Estimated 1958 Earnings Per Share	Ind. Div. (*)	Price Range 1958-1959	Recent Price	Div. Yield
American Motors	—	—	362.2[1]	470.3[1]	d3.2%	5.5%	d2.12[1]	4.65[1]	4.65[1]	(4)	41½- 8	39	—
Chrysler	3,564.9	13.75	2,745.8	1,486.1	3.7	d3.0	11.87	d5.18	(5)	1.00	59⅛-44	52	1.9%
Ford Motor Co.	5,771.3	5.19	4,419.2	2,682.9	5.1	d .6	4.22	d .30	1.20	1.60	56 -37⅜	55	2.9
Fruchauf Trailer	243.2	.21	178.9	153.7	1.5	.1	.38	.001	0.05	—	20⅝- 9¼	19	—
General Motors	10,989,8	2.98	8,235.0	6,744.2	7.3	5.9	2.14	1.39	2.20	2.00	52 -33¾	49	4.0
Int. Harvester	1,171.3	2.88	852.3[2]	776.2[2]	3.6[2]	3.7	1.95[2]	1.81[2]	2.60	2.00	44 -27	41	4.8
Mack Truck	263.6	4.33	201.0	188.6	4.4	2.5	3.54	1.88	3.00	1.80	36¼-21⅜	33	5.4
Stude.-Packard	213.2	d1.73	147.4	92.0	d8.3	d24.4	d1.92	d3.50	(5)	—	16 - 2⅞	14	—
Twin Coach	29.9	d6.22	(3)	31.0	(3)	4.1	(3)	2.31	3.00	—	15⅛- 3⅝	14	—
White Motor	225.9	6.66	171.6	189.0	2.8	2.1	4.77	3.92	6.25	3.00	73 -40½	72	4.1

d—Deficit.
*—Based on current rate.
1—Year ended September 30.
2—9 months ended July 31.
3—1957 period not comparable due to company accounting adjustments.
4—Declared 5% in stock payable 1/5/59.
5—Deficit.

of the small and "compact" cars. Small cars include the low-priced economy cars offered by Volkswagen, Renault, and many other European producers. The compact cars are the American made cars: the Rambler line of American Motors, and Studebaker-Packard's new Lark.

Sales of small European-model economy-sized, cars had been doubling in each year since 1956. They reached a level of nearly 400,000 in 1958, and may level off this year at around 400,000 to 500,000, largely because of increased competition that is being offered to them by the American built Rambler and Lark.

Gains by Rambler have been even greater than those of the small foreign cars, during the last six months of 1958. Rambler's output last year moved up to about 216,000, nearly double its production for 1957. Studebaker-Packard, in recent weeks, seems to have found good customer interest in its Lark in its initial year. The company's production, because of this new entry, has been averaging over 2,200 a week, and is moving to higher levels. This is over three times its rate of output in the same months of 1958.

The success of Rambler and of Lark in recent months has made it plain that the Big Three will have to introduce comparable compact cars, with wheelbases of about 108 inches against 116 or 117 inches for Chevrolet, Ford and Plymouth. Tooling for these new cars has been virtually completed. They should be ready for introduction this Fall.

Small Car Problems

For a time, however, introduction of these new economy cars by the Big Three will create almost as many problems as it will solve. In recent years, the manufacturers' profits have been affected not only by the drop in total volume, but by the shift in demand from medium priced cars to the low priced lines—Chevrolet, Ford and Plymouth. Now the demand may shift from the latter to compact economy cars.

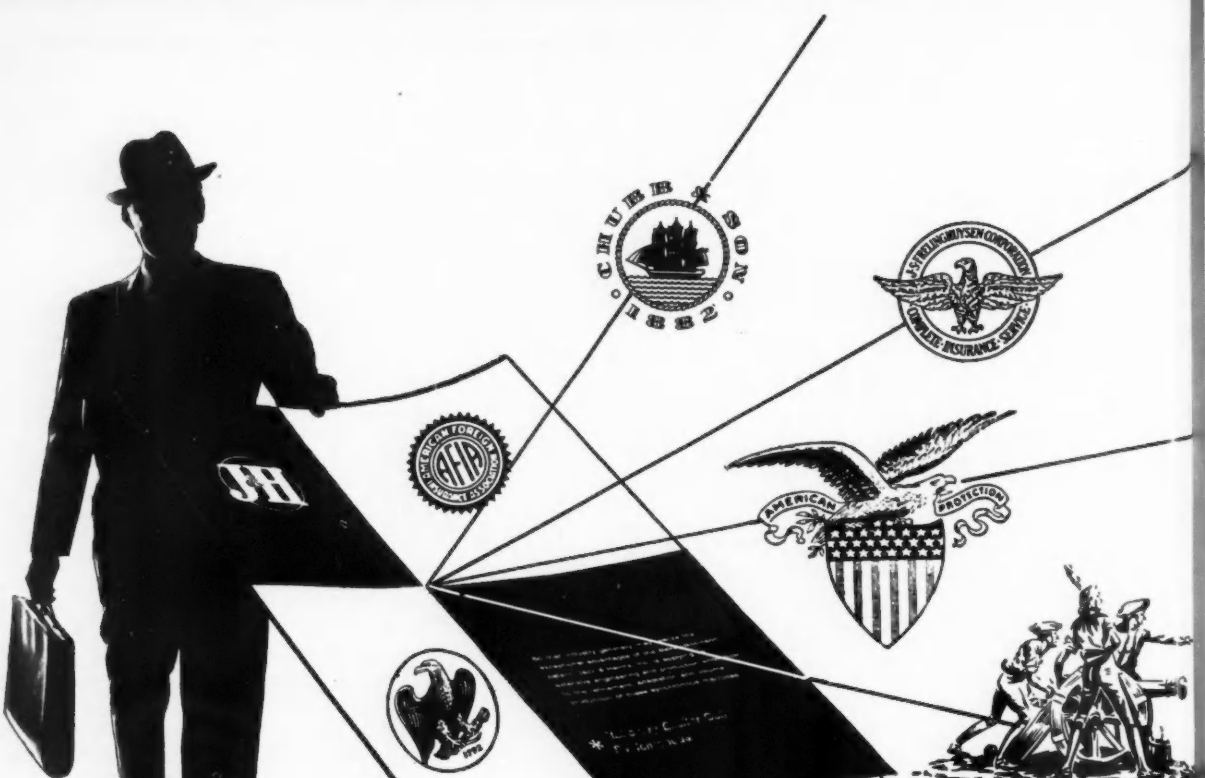
Last year, low priced cars of the Big Three accounted for nearly 63 per cent of the industry's total ouput, against 60 per cent in 1957. The new compact cars, of the Big Three will be priced between $1800 and $2000—at least $200 to $300 under present Chevrolet-Ford-Plymouth's lowest prices. This will mean sharp competition not only for the present volume leaders, but also for present medium priced cars.

In short, there is a possibility that unless the Big Three can develop some unusual production economies, that the introduction of the new compact cars will mean a reduction in profits per dollar of sales or per unit sold. The industry will be doing what it has long tried to avoid:—it will be "trading down," creating a demand for a product on which the margin of profit is lower than on its present lines of cars.

The impact of this trend may not be felt all at once. Next year could be a better year for general business, and total volume could show further improvement. In that case, the erosion of profits caused by the introduction of new, small, low profit cars would not be apparent at once. But if the compact cars continue to account for a steady rise in their share of the market, sooner or later the auto industry will face smaller profit margins per car sold than it has seen in most of the postwar period.

The Profit Picture

This drop in profit per car may eventually—say by 1965—be offset by growth in the total number of units sold. The car population is expected to increase from present *(Please turn to page 493)*



Contrasting Prospects for...
INSURANCE COMPANIES

By W. A. Lukens

AT the beginning of 1959 insurance companies generally, and fire and casualty insurance companies particularly, find their position and prospects substantially improved over what they were in January of 1958. Fire and casualty stocks have given a fine account of themselves, rising from their depressed prices of a year ago by a healthy average of 46%. This is better than the 33% gain in the Dow, Jones Industrial Average—from 440 to a level of 585 during 1958.

Fire and Casualty Companies

While a year ago there were only dim hopes that 1958 would show some improvement in underwriting results compared with the dismal performances of 1956 and 1957, prospects for the fire and casualty companies, today, definitely appear to be in an improving trend. Underwriting results for the fire and casualty insurance companies as a group continued to be poor during the first quarter of 1958. However, by the time that second quarter statements were available it began to appear that a significant change for the better was developing within the industry. Third quarter results indicated a continuation of the improvement noted in the previous three months, tending to confirm the conclusion that the unfavorable phase of the underwriting cycle had at last given way to the recovery stage.

The years 1956 and 1957 were among the worst, from the standpoint of underwriting experience, in the history of the fire and casualty insurance business. Statutory underwriting losses totaled $134 million in 1956 and $358 million in 1957, or almost half a billion dollars for the two year period. In terms of the ratio of combined losses and expenses to premiums, for a representative group of stock fire and casualty insurance companies the averages were 102.0% in 1956 and 104.4% in 1957. By quarters these percentages, which reflect most effectively the underwriting profitability of the insurance business, were as follows for 1957 and 1958:

Expenses and Losses As % of Premiums Earned

	1958	1957
3rd Quarter	98.9%	105.3%
2nd Quarter	100.1	102.9
1st Quarter	105.4	104.0
Nine Months	101.4	104.1

Life Insurance Industry Data

	Life Insurance in Force (In Billions)	Admitted Assets (In Billions)	Death Rate per Thousand	Net Rate of Interest Earned on Invested Funds: Before Income Taxes	Net Rate of Interest Earned on Invested Funds: After Income Taxes
1958 (Estimated)	$492.0	$107.2	9.6	3.85%	*
1957	458.4	101.3	9.6	3.74	3.43%
1956	412.6	96.0	9.4	3.63	3.33
1955	372.3	90.4	9.3	3.51	3.23
1954	333.7	84.5	9.2	3.46	3.24
1953	304.3	78.5	9.6	3.36	3.15
1952	276.6	73.4	9.7	3.28	3.07
1951	253.1	68.3	9.7	3.18	2.98
1950	234.2	64.0	9.6	3.13	3.00
1949	213.7	59.6	9.7	3.06	2.98
1948	201.2	55.5	9.9	2.96	2.96

*—Not available due to uncertainty about tax law.

The improvement in underwriting performance of the industry, quarter by quarter, is demonstrated by the drop in these ratios. The fact that the industry was actually in the black in the third quarter is most encouraging, especially in comparison with the very poor third quarter of 1957. Although further improvement in underwriting results is expected in the last quarter of 1958, it will be difficult for the industry to bring the combined loss and expense ratio much under 100% for the full calendar year.

Reasons Behind Improvement

Some of the factors which have contributed most to the improvement in fire and casualty insurance company underwriting results in 1958 are:

► Upward readjustments in rates in both fire and casualty lines have taken place over the past two years and are only now beginning to have their beneficial effects on earnings. Over the next two years these effects should become increasingly helpful to earnings. Automobile bodily injury and property damage insurance rates have been increased substantially (by about 20%) in two rounds of increases (one in 1957 and a second in 1958) in practically all states except New York. Before long even New York will have to bring its automobile insurance rate schedules up, in line with the other states, permitting the insurance companies to earn a fair return on this business.

► During 1958 there seems to have been some tapering off in the loss experience of many fire and casualty insurance companies. Accident frecuency and severity has declined, and for the first ten months of 1958 fire losses in the country increased only 3.3% over the previous year versus a 5.4% rise in the first ten months of 1957 over the comparable 1956 period. There seems to have been a diminution in the number of costly catastrophies of previous years such as Hurricane Audrey and major accidents in the air and on the seas. Extended coverage insurance showed a marked improvement in profitability last year.

► Many of the fire and casualty insurance companies have taken steps to tighten up their underwriting practices, to reduce expenses of operation and to adjust commission rates on certain lines where little selling effort is required of the producer and where higher premium rates permit lower commission schedules without reducing the dollar amounts received by *(Please turn to page 495)*

Data On Leading Life Insurance Company Stocks

	Market Price 1955 High	Market Price At 12/31/57	Market Price At 12/31/58	Increase from 12/31/57	1957 Adjusted Earning[1]	Present Dividend Rate	Yield	Dividend as % of Adjusted Earnings	Price Times Adjusted Earnings	Estimated Total Equity Value at 12/31/57[2]	Price as % of Equity Value	Increase in Life Insurance in Force 1947-57
Aetna Life	292	183	240	31%	$14.74	$3.40	1.41%	23.1%	16.3	$175.72	137%	198%
Commonwealth Life	19⅝[3]	17	26⅞	58	1.88	0.20	0.74	10.6	14.3	15.44	174	216
Connecticut General Life	310[4]	236	360	53	17.31	2.20	0.61	12.7	20.8	206.92	174	288
Continental Assurance	188½[5]	112	169	51	7.52	1.20	0.71	16.0	22.5	64.40	262	464
Franklin Life	65¼[6]	51½[14]	82¼	60	3.71[14]	0.40	0.49	10.8	22.2	21.84[14]	377	416
Gulf Life	36¾[7]	20¾	25⅜	18	1.61	0.50	2.05	31.1	15.1	18.87	129	169
Jefferson Standard Life	108	68	89½	32	6.87	1.25	1.40	18.2	13.0	65.47	137	164
Kansas City Life	2000	1050	1570	50	122.19	8.00	0.51	6.5	12.8	1344.38	117	72
Liberty National Life	25⅝[9]	28	48¾[16]	72	2.68	0.29	0.60	10.8	18.0	17.84	270	191
Life Insurance Co. of Va.	80¾[10]	46⅞[10]	53¾	15	4.27[10]	1.20	2.23	28.1	12.6	57.95[10]	93	112
Lincoln National Life	272½[4]	169	252	49	16.46	2.00	0.79	12.2	15.3	154.07	164	212
Monumental Life	75[11]	51¾[11]	66	28	5.66[11]	1.20	1.82	15.9	11.7	52.70[11]	125	78
National Life & Accident	89½[12]	77[12]	120	56	6.73[12]	0.50	0.33	7.4	17.8	56.69[12]	212	176
Travelers Insurance	123	72¼	95	31	5.06	1.10	1.16	21.7	18.8	71.20	133	166
United States Life	32⅝[13]	21¼[15]	45¾	115	2.37[15]	0.15	0.33	5.1	19.3	16.50[15]	277	385
Average of 15 Companies				48%			1.01%	14.4%	16.7		185%	220%

1—Includes equity in increase in life insurance in force valued at $15 per thousand for ordinary, $5 per thousand for group, and 50% of annual premiums for industrial.
2—Includes equity in life insurance in force at same valuations as in 1.
3—Adjusted for 33⅓% stock dividend paid in 1957.
4—Adjusted for 100% stock dividend paid in 1956.
5—Adjusted for 23% stock dividend paid in 1956.
6—Adjusted for stock dividends of 50% (1957) and 5% (1958).
7—Adjusted for 10% stock dividend paid in 1957.
8—Adjusted for 25% stock dividend paid in 1957.
9—Adjusted for 5 for 1 split and 20% stock dividend, both in 1957.
10—Adjusted for 4% stock dividend and 2 for 1 split, both in 1958.
11—Adjusted for 33⅓% stock dividend paid in 1958.
12—Adjusted for 20% stock dividend paid in 1958.
13—Adjusted for 2 for 1 split and 20% stock dividend (both in 1956) and 25% stock dividend paid in 1958.
14—Adjusted for 5% stock dividend paid in 1958.
15—Adjusted for 25% stock dividend paid in 1958.
16—A stock dividend of 25% has been proposed for payment in 1959.

FOR PROFIT AND INCOME

Rails

As this is written, rails seem pointed higher and show relatively more strength than the industrial list. In our issue of last October 11, four high-yield rails were recommended here for returns ranging from 6.3% to 6.7%. The stocks: C. & O., Great Northern, L. & N., and Nickel Plate. The subsequent appreciation to date averages about 16%, or fairly well in line with that of the rail list. There is something to be said for the combination of about average gain, with yield well above average. Now yields on these four stocks, even though pared materially, are still relatively attractive. They range from 5.7% to 5.9%, with dividends apparently safe at least until the next business slump comes along. We would hold the stocks. It is getting late for new buying in this advanced bull market.

Big Speck

It was just a few years ago that small cars, then all imports from Europe. were only a tiny speck in the eyes of the U. S. automobile industry. Now it is a big speck and getting bigger. In 1958, foreign cars had a reported 8.2% of the U. S. market, against 3.3% in 1957. Including American Motors' Rambler and Studebaker's Lark, small cars had total sales close to 15% of the U. S. market in December. All of which is a pain in the neck for the Big Three. We continue to think their coming reluctant entrance into the small-car business will not bring a net addition to earning power. Obviously, they would have preferred to be let alone in concentration on big cars at proportionately big unit profits. (See story "Automobile Industry at the Crossroads" page 479 of this issue).

Cross-Currents

Stock groups reflecting above-average demand in recent trading sessions up to this writing include air transport, aluminum, auto parts, construction, chemicals, coppers, electrical equipment and appliances, farm equipment,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Carrier Corp.	Year Oct. 31	$3.27	$3.17
Spencer Kellogg & Sons	Quar. Nov. 20	.36	.07
General Mills, Inc.	6 mos. Nov. 30	3.14	2.59
General Telephone	12 mos. Nov. 30	3.20	3.08
Wesson Oil & Snowdrift	Quar. Nov. 29	.55	.42
Cessna Aircraft Co.	Year Sept. 30	6.18	5.04
Western Pacific R.R.	11 Mos. Nov. 30	8.05	6.95
Stevens (J. R.) & Co., Inc.	Year Nov. 1	2.60	2.21
Tennessee Gas Transmission	12 mos. Nov. 30	1.74	1.52
Glidden Co.	Quar. Nov. 30	.76	.52

meat packing, metal fabricating, radio-television, rails and rail equipment, shoes, steel, tobaccos and variety stores. Groups which have recently been faring worse than the market are principally aircraft, automobiles, coal, finance companies, gold mining, machine tools, oils (mainly the internationals), food-store chains, movies, paper, shipbuilding, sulphur and tires.

Coal

Following a sizeable prior advance, stocks of bituminous coal producers are entitled to a slowdown on technical grounds alone. Despite a further shrinkage this year in exports of coal to West Europe, from the abnormal level of a couple of years ago, total demand figures may be up substantially as a result of industrial recovery and further growth in fuel needs of electric utilities. Prices will be firmer. Profits of most companies were down in 1958, in some cases sharply. Good 1959 gains are likely. Some of the stocks look high. None is cheap. Probably Pittston Company—mainly in coal, also in oil distribution, trucking and warehousing—seems the best bet, with the stock now at 68 in a 1957-1959 range of 84-39$\frac{3}{4}$. Profit in 1958 probably was around half 1957's record \$7.15 a share. The latter figure might be approximated or approached this year; and it could be materially exceeded by 1960. The company has the benefit both of business recovery and of a major new, uncommonly efficient, low-cost mine. Dividends are at \$1.20, plus 5% a year in stock.

First?

As an important Peruvian producer of copper, lead and zinc, Cerro de Pasco earned \$8.87 a share (before depletion) back in 1955 when metal prices averaged much above the present level; but profit skidded to an estimated \$2.80-\$2.90 a share in 1958. In the meanwhile, the company acquired U. S. metal-fabricating concerns to broaden and diversify its position. A merger of Consolidated Coppermines—which has sold its mining properties and is now a copper and brass fabricator—is pending and will further strengthen Cerro's position. On the present basis, the company could approach previous best earnings without anything like previous highest metal prices. It can do so on rising volume, with moderately firmer prices. Net this year might be \$4 to \$5 a share. In short, Cerro may be among the first, if not the first, of the copper-lead-zinc producers to have a full or nearly full profit recovery. Dividends are at \$1, with another 5% stock extra expected soon. The stock is performing well. At 48, in a 1956-1959 range of 77$\frac{3}{4}$-24$\frac{1}{8}$, we think it has a basis for working substantially higher over a reasonably extended period of time.

Clevite Corp.

In our issue of December 6, the stock of Clevite Corp. was recommended here at 23 for speculation, based on a good rebound, possibly to a new peak approaching \$3 a share, in 1959 earnings. Recently, on large trading volume, the stock broke through a long-standing resistance level around 25 and is around 30 at this writing. The percentage rise in a short time has been substantial. If you bought the stock, stay with it for further possibilities after some likely consolidation. We do not advise new buying at the issue's improved level.

Viscose

American Viscose is the largest producer of rayon; and a sizable maker of cellophane. It has a 50% interest in Chemstrand Corp., a big maker of nylon and Acrilan; and 50% also in Ketchikan Pulp Co. The rayon business has gone through the wringer in recent years, with profits drastically reduced. The company may report net around \$1.20-\$1.30 a share for 1958, against 1957's \$1.65, excluding non-consolidated equity in joint-venture earnings roughly equal to those of Viscose. Peak profit was \$6.26 a share back in 1950. The stock's all-time high was 63$\frac{3}{8}$ in 1951, the next best level 57$\frac{1}{8}$ in 1955, on earnings of \$4.66 a share and a \$2 dividend, against a present \$1 rate. With a recovery under way, Viscose might net anywhere from \$2 to \$2.50 a share this year; or around \$4 or more, including its share of affiliated-company profits (mainly provided by Chemstrand). The stock is at 37 in a 1957-1959 range of 44$\frac{5}{8}$-25. At a time of record prices and very high price-earnings ratios in much of the market, this relatively depressed issue seems to have speculative potentials for a sizable further recovery.

Store Stocks

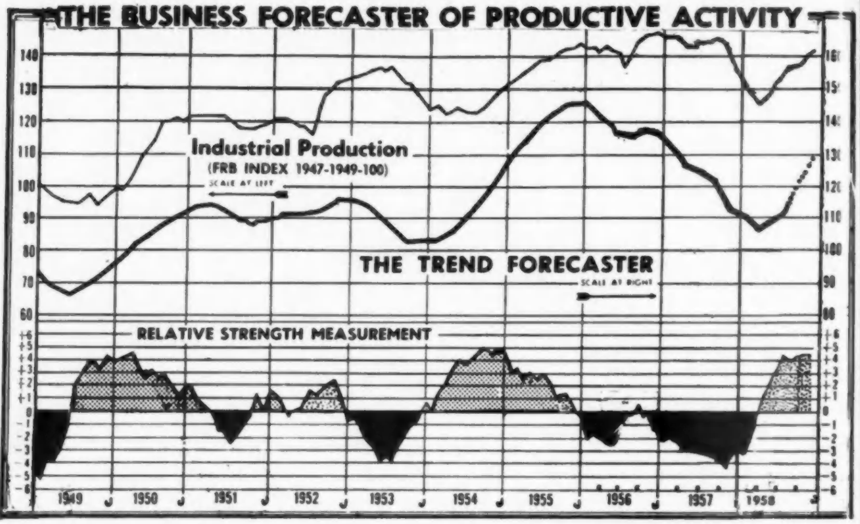
All present indications point to fairly good gains in retail sales this year, and to some improvement in margins. Earnings are already at record levels in the food-store field and a few other special situations, with stock prices up accordingly and generally high. Current-year earnings should be the best in some years in the department-store and variety-chain fields. The latter stocks have been depressed for a long time, but show improving market action now. Most department store issues have no better than so-so records in earnings and market performance in recent years. You can say this for these stock groups: they are not inflated and not particularly high on possible 1959 earnings. Fair values are offered by Allied

(Please turn to page 500)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Tishman Healty & Con. Co.	Year Sept. 30	\$1.50	\$2.02
Masonite Corp.	Quar. Nov. 30	.65	.82
Pennsylvania R.R.	11 mos. Nov. 30	.09	1.54
South Amer. Gold & Platinum	9 mos. Sept. 30	.17	1.53
U. S. Borax & Chemical	Year Sept. 30	.41	1.15
Guantanamo Sugar Co.	Year Sept. 30	.29	1.98
Sheraton Corp. of Amer.	6 mos. Oct. 31	.39	.53
Dresser Industries, Inc.	Year Oct. 31	2.14	4.47
Chain Belt Co.	Year Oct. 31	5.24	6.21
Aeroquip Corp.	Year Sept. 30	.77	2.19

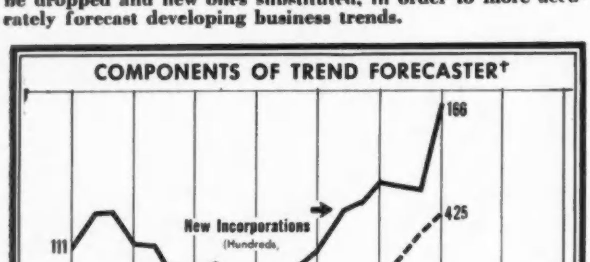
the Business



Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

As the new year begins, the sensitive indicators entering into the Trend Forecaster remain in a clearly positive consensus.

- ►Stock prices began the year at a new peak.
- ►Housing starts had returned to the highest level in over four years.
- ►Average hours worked in factories were largely recovered from their collapse of the 1958 recession.
- ►Commodity prices and new orders in durables industries had improved significantly from their recession troughs.
- ►New incorporations climbed well above their 1957 peaks. Only business failures (inverted) and non-residential appeared to be unresponsive in late 1958.

The Relative Strength Measurement, which had risen above the critical +3 level at midsummer of 1958, has stayed above that level ever since, and continues to forecast further short-term recovery in general business conditions. While recent hesitations in a few of the series (business failures, commodity prices) do not yet signify anything, they should be watched for implications as to the last half of the year — still in doubt.

Analyst

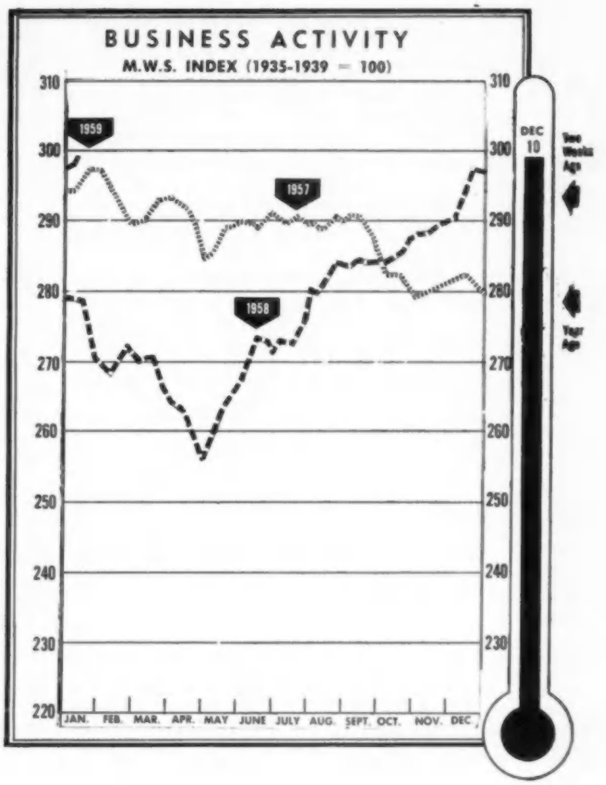
CONCLUSIONS IN BRIEF

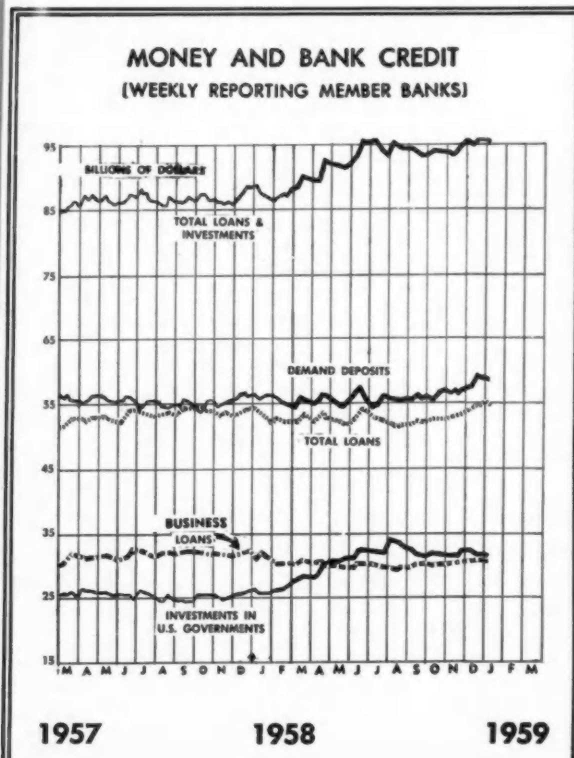
PRODUCTION—recorded a small advance in December, and a slight further rise in January. Outlook: further gain, at a slow rate, in remainder of first quarter. Gains probable in machinery lines, primary and fabricated metals, and most nondurables.

TRADE—Year-end 1958 saw retail volume hit new peaks; for next three months, the seasonally adjusted rate is likely to stick at about $17.3-17.5 billion per month.

MONEY & CREDIT—No short-term trend now apparent; supply of funds adequate, rates about stable. However, personal credit uses (mortgages, instalment loans) now revived; if joined by any revival in business demand for funds, money market will tighten quickly.

COMMODITIES—No indication of inflation in wholesale and retail prices themselves, as of the end of 1958. Farm prices ended the year in a gradual decline, while industrial prices were in a slight uptrend. In early 1959, no important change in prices imminet.





THE issues on the general business environment of 1959 now appear to be clearly joined. As indicated in this column on several earlier occasions, these issues are the 1959 automobile market, and the 1959 market for capital goods (including commercial and manufacturing construction). For the rest, one can make some reasonably safe approximations, certainly for the first half at least.

Among soft-goods lines, there is little reason to expect anything but steady improvement in production, sales and earnings in 1959. In chemicals, paper, and textiles, recovery from the the 1958 recession is already complete, and further gains are in prospect. Prices are strengthening in both chemicals and paper, and users have begun to rebuild the inventories that they liquidated six months ago. At mid-1959, all of the industries in the soft goods group should be in a condition of record prosperity.

In autos, the situation is still unclear. Recent sales rates have been showing steady improvement. By most seasonal adjustments, the rate of new-car sales in December evidently came close to six million at annual rates, a very marked improvement from the rates prevailing a year earlier, or from the average rate for 1958 as a whole. However, part of the improvement may stem from the increased factory deliveries of cars, which were not available in October and November because of strike-impeded production in those months. The auto outlook for 1959 as a whole is also somewhat obscured by (a) the possibility of a mid-year steel strike, and (b) the pos-

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Dec.	142	141	135
Durable Goods Mfr.	1947-'9-100	Dec.	152	152	146
Nondurable Goods Mfr.	1947-'9-100	Dec.	136	135	127
Mining	1947-'9-100	Dec.	123	123	123
RETAIL SALES*	$ Billions	Dec.	17.5	17.0	16.9
Durable Goods	$ Billions	Dec.	5.7	5.5	5.6
Nondurable Goods	$ Billions	Dec.	11.8	11.4	11.3
Dep't Store Sales	1947-'9-100	Dec.	145	137	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	27.9	27.9	26.0
Durable Goods	$ Billions	Nov.	13.7	13.5	12.4
Nondurable Goods	$ Billions	Nov.	14.4	14.3	13.7
Shipments*	$ Billions	Nov.	27.2	27.6	27.2
Durable Goods	$ Billions	Nov.	12.9	13.4	13.5
Nondurable Goods	$ Billions	Nov.	14.2	14.2	13.7
BUSINESS INVENTORIES, END MO.*	$ Billions	Nov.	85.1	84.9	91.0
Manufacturers'	$ Billions	Nov.	49.3	49.3	53.9
Wholesalers'	$ Billions	Nov.	12.1	12.1	12.8
Retailers'	$ Billions	Nov.	23.7	23.5	24.3
Dept. Store Stocks	1947-'9-100	Nov.	153	152	154
CONSTRUCTION TOTAL	$ Billions	Dec.	4.0	4.4	3.8
Private	$ Billions	Dec.	2.9	3.1	2.7
Residential	$ Billions	Dec.	1.6	1.7	1.4
All Other	$ Billions	Dec.	1.3	1.5	1.3
Housing Starts*—a	Thousands	Dec.	1430	1330	1000
Contract Awards, Residential—b	$ Millions	Nov.	1206	1595	930
All Other—b	$ Millions	Nov.	1388	1714	1441
EMPLOYMENT					
Total Civilian	Millions	Dec.	64.0	64.7	64.4
Non-Farm	Millions	Dec.	51.8	51.4	52.6
Government	Millions	Dec.	8.3	8.1	8.1
Trade	Millions	Dec.	11.9	11.4	12.1
Factory	Millions	Dec.	11.9	12.0	12.4
Hours Worked	Hours	Dec.	40.2	39.9	39.4
Hourly Earnings	Dollars	Dec.	2.19	2.17	2.10
Weekly Earnings	Dollars	Dec.	88.04	86.58	82.74
PERSONAL INCOME*	$ Billions	Dec.	359	360	348
Wages & Salaries	$ Billions	Dec.	243	242	237
Proprietors' Incomes	$ Billions	Dec.	58	58	55
Interest & Dividends	$ Billions	Dec.	30	32	30
Transfer Payments	$ Billions	Dec.	26	27	23
Farm Income	$ Billions	Dec.	17	17	15
CONSUMER PRICES	1947-'9-100	Nov.	123.9	123.7	121.6
Food	1947-'9-100	Nov.	119.4	119.7	116.0
Clothing	1947-'9-100	Nov.	107.7	107.3	107.9
Housing	1947-'9-100	Nov.	128.0	127.9	126.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	110.3	110.0	105.9
Bank Debits*—g	$ Billions	Nov.	80.5	87.7	79.0
Business Loans Outstanding—c	$ Billions	Nov.	30.6	29.7	31.5
Instalment Credit Extended*	$ Billions	Nov.	3.6	3.5	3.6
Instalment Credit Repaid*	$ Billions	Nov.	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	5.0	2.8	4.8
Budget Expenditures	$ Billions	Nov.	6.2	7.1	5.8
Defense Expenditures	$ Billions	Nov.	3.6	4.2	3.4
Surplus (Def) cum from 7/1	$ Billions	Nov.	(10.1)	(8.8)	(6.9)

PRESENT POSITION AND OUTLOOK

sible effects, both bad and good, of introducing new small-car models around July or August of this year.

In the capital goods markets, the situation is even less clear. While the decline in this crucial area of the economy is now over, by all indications nothing of a very spectacular nature seems to lie ahead. The year-end surveys in this area all seem to suggest that with capacity as ample as it is, no great urgency now attaches to capital spending.

* * *

EMPLOYMENT—these are among the key laggard statistics for early 1959. As of the end of the year, the number of jobs, as measured by the Bureau of Labor Statistics, was about 50.8 million, or still almost two million below the peak reached in mid-1957. Moreover, the employment level showed no clear uptrend in the last several months of 1958, despite a sharply rising rate of national output. The number of employed rose in September, fell in October (as a result of the automobile strikes), rose a bit in November, and was about unchanged in December.

This is hardly a very encouraging rate of recovery, and it poses one of the big problems of business in 1959. For if the failure of employment to rise as rapidly as output is attributable to a big gain in productivity, then unions will be in hot pursuit of at least an equal gain in the wage rate (and, likely, more than an equal gain).

Unemployment, too, is one of the more puzzling statistics of early 1959. The level of unemployment rose in December, by somewhat more than the usual amount. This may be due to unusually severe December weather, which reportedly caused curtailment of many outdoor industries. In any event, unemployment usually rises fairly sharply in January and February, and a level close to five million is now probable for next month, when production itself will be at approximately record levels. This set of political problems is certainly likely to catch the eye of the new Congress, and get plenty of legislative attention.

* * *

THE BACKLOG SITUATION — In the past few months, the decline in unfilled orders of manufacturing industries — a decline that was continuous throughout 1957 and the first

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 III Quarter	1958 II Quarter	1958 I Quarter	1957 III Quarter
GROSS NATIONAL PRODUCT	439.0	429.0	425.8	445.6
Personal Consumption	291.5	288.3	286.2	288.3
Private Domestic Invest.	53.7	49.2	49.6	66.7
Net Foreign Investment	0.5	0.5	0.5	3.6
Government Purchases	93.3	90.9	89.5	87.0
Federal	53.4	51.9	50.9	50.9
State & Local	39.9	39.1	38.6	37.8
PERSONAL INCOME	357.5	349.8	347.3	351.8
Tax & Nontax Payments	43.5	42.3	42.3	43.1
Disposable Income	314.0	307.5	305.0	308.7
Consumption Expenditures	291.5	288.3	286.2	288.3
Personal Saving—d	22.5	19.2	18.8	20.4
CORPORATE PRE-TAX PROFITS	—	32.0	31.7	44.2
Corporate Taxes	—	16.3	16.1	22.0
Corporate Net Profit	—	15.7	15.5	22.1
Dividend Payments	—	12.4	12.5	12.7
Retained Earnings	—	3.3	3.0	9.4
PLANT & EQUIPMENT OUTLAYS		30.3	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 10	298.5	296.8	278.8
MWS Index—per capita*	1935-'9-100	Jan. 10	222.1	220.2	210.2
Steel Production	% of Capacity	Jan. 18	74.6	73.6	57.0
Auto and Truck Production	Thousands	Jan. 17	165	165	136
Paperboard Production	Thousand Tons	Jan. 10	304 a	321 b	275 c
Paperboard New Orders	Thousand Tons	Jan. 10	317 a	365 b	264 c
Electric Power Output*	1947-'49-100	Jan. 10	248.4	239.9	230.3
Freight Carloadings	Thousand Cars	Jan. 10	550	468	570
Engineering Constr. Awards	$ Millions	Jan. 15	302	260	220
Department Store Sales	1947-'9-100	Jan. 10	121	105	116
Demand Deposits—c	$ Billions	Jan. 7	58.7	59.0	56.4
Business Failures	Number	Jan. 8	321	169	324

a—10 days ending Jan. 10 b—11 days ending Dec. 31 c—Week ending Jan. 11

PRESENT POSITION AND OUTLOOK

half of 1958 — has finally ended. In September, new orders of manufacturing companies exceeded their sales, and the seasonally adjusted backlog began to rise. It's important to note, however, that much of the improvement has been centralized in defense lines; for general manufacturing, backlogs are still relatively small, and it will take many months of improvement before they can serve as a strong support to production.

HOUSING STARTS—in December, they reached up to a 1.4 million annual rate, the highest since the last few months of 1954. And mortgage recordings have followed the starts figures up, which means houses are being sold, as well as built. Vacancy rates for residential structures are still quite low, and no serious collapse of the building rate seems at all likely. However, it may be worth noting that the mortgage market is now soaking up a lot of long-term funds. Unless legislative measures are taken by the new Congress to channel a further flow of federal funds, the residential building rate is going to run into a slowdown within several months, dictated by the end of federal stimulus in the form of VA-FHA funds. Thus, the current tentative outlook for housing is mildly down — from a very high level.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958-'59 Range High	Low	1959 Jan. 9	Jan.16
300 Combined Average	446.6	283.9	441.3	446.4H
4 Agricultural Implements	377.1	196.5	359.7	377.1H
3 Air Cond. ('53 Cl.—100)	126.3	87.8	125.0	126.3H
10 Aircraft ('27 Cl.—100)	1252.4	982.2	1240.1	1215.5
7 Airlines ('27 Cl.—100)	1139.5	638.8	1139.5	1139.5
4 Aluminum ('53 Cl.—100)	443.7	253.4	422.2	417.9
5 Amusements	202.4	125.0	202.4	200.5
6 Automobile Accessories	417.5	298.9	417.5	321.5H
6 Automobiles	100.9	40.8	98.5	100.4H
4 Baking ('26 Cl.—100)	40.2	28.5	39.4	40.2H
4 Business Machines	1317.2	898.2	1291.2	1291.2
6 Chemicals	713.3	18.4	713.3	706.5
4 Coal Mining	171.2	85.7	28.6	29.5H
4 Communications	158.7	107.5	166.3	171.2H
9 Construction	1142.6	707.3	160.3	158.7H
7 Containers	302.9	184.6	1142.6	1120.7
6 Copper Mining	147.7	115.6	297.4	302.9H
2 Dairy Products	121.4	78.9	147.4	146.0.9
6 Department Stores	147.7	115.6	121.4	121.4
5 Drugs-Eth. ('53 Cl.—100)	425.2	217.2	395.5	403.5
6 Elec. Eqp. ('53 Cl.—100)	747.2	568.8	268.8	271.4
3 Finance Companies	271.4	195.8	704.9	661.8
5 Food Brands	434.1	255.5	426.2	434.1H
3 Food Stores	279.6	182.2	276.9	279.6H

(Nov. 14, 1936 Cl.—100)	High	Low	Jan. 9	Jan.16
100 High Priced Stocks	273.4	189.7	271.8	273.4H
100 Low Priced Stocks	605.9	334.7	598.6	605.9H
5 Gold Mining	962.8	530.5	920.6	937.5
4 Investment Trusts	186.9	144.4	185.1	186.9H
3 Liquor ('27 Cl.—100)	1564.6	913.4	1549.5	1549.5
8 Machinery	456.8	343.8	452.4	456.8
3 Mail Order	262.3	143.3	253.1	260.4
4 Meat Packing	224.0	123.6	216.2	224.0H
5 Metal Fabr. ('53 Cl.—100)	191.8	138.1	186.6	191.8H
9 Metals, Miscellaneous	395.0	278.3	373.0	395.0H
4 Paper	1216.9	841.8	1205.2	1216.9H
22 Petroleum	852.1	629.7	843.8	852.1
21 Public Utilities	351.8	258.9	348.4	351.8H
6 Railroad Equipment	93.7	59.2	91.2	93.7H
20 Railroads	76.7	[illegible]	76.0	76.7H
3 Soft Drinks	628.6	445.6	617.1	628.6H
12 Steel & Iron	411.6	249.3	400.2	411.6H
4 Sugar	144.7	102.8	144.7	143.4
2 Sulphur	828.5	543.4	786.9	794.6
11 TV & Electron. ('27 Cl.—100)	69.8	28.8	69.1	68.4
5 Textiles	178.4	106.9	176.6	178.4
3 Tires & Rubber	224.6	142.3	216.1	224.6H
5 Tobacco	183.1	110.9	179.7	183.1H
3 Variety Stores	350.9	239.3	341.1	350.9H
20 Unclassif'd ('49 Cl.—100)	251.6	145.4	244.5	251.6H

H-New High for 1958-1959.

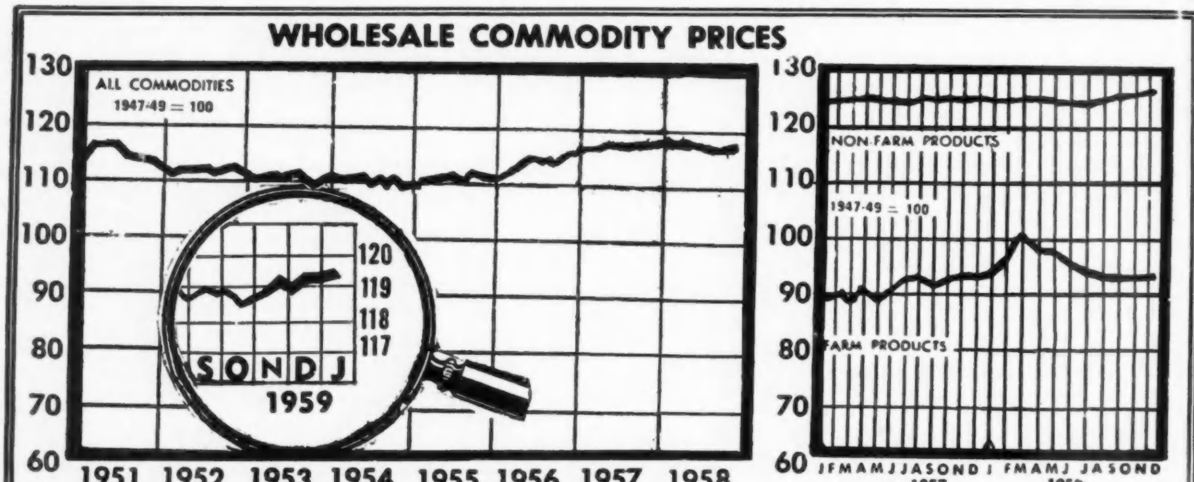
Trend of Commodities

SPOT MARKETS—Among sensitive commodities, raw foodstuffs continued under pressure in the two weeks ending January 16, while raw industrial materials showed resistance to decline. The decline in foodstuffs, however, resulted in a drop of 0.4% for the BLS index of 22 leading commodities, bringing it to its lowest level since May, 1958. The industrial material sector advanced 0.2%, thanks to improvement in prices for copper, scrap and tin, but still remained close to recent lows.

While sensitive commodities remained backward, the broad rank and file of commodities continued their slow upward march, with the advances concentrated in commodities with high factory labor costs or whose prices are effectively administered.

FUTURES MARKETS—Diverse movements featured futures markets in the two weeks ending January 16. Wheat, cotton, coffee, copper, tin, hides and rubber were higher during this period while corn, lard, cocoa, zinc and wool tops were lower. Changes were small, with the exception of cocoa and wool tops, which fell heavily, accounting for most of the 1.8 point drop in the Dow-Jones Commodity Futures Index.

Wheat prices improved in the two weeks ending January 16 with new crop options in the lead. Demand for old crop positions was dampened by a slackening in export business and by worry that impoundings in the Government loan would be inadequate to absorb the big surplus. However, at current substantial discounts from the Government loan equivalent, old crop futures should encounter substantial support.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 13	119.4	119.2	118.9	60.2
Farm Products	Jan. 13	91.5	91.1	93.7	51.0
Non-Farm Products	Jan. 13	127.3	127.2	126.1	67.0
22 Sensitive Commodities	Jan. 16	85.0	85.3	85.0	53.0
9 Foods	Jan. 16	79.3	79.9	87.1	46.5
13 Raw Ind'l. Materials	Jan. 16	89.2	89.0	83.4	58.3
5 Metals	Jan. 16	98.0	97.3	85.7	54.6
4 Textiles	Jan. 16	76.9	77.1	78.3	56.3

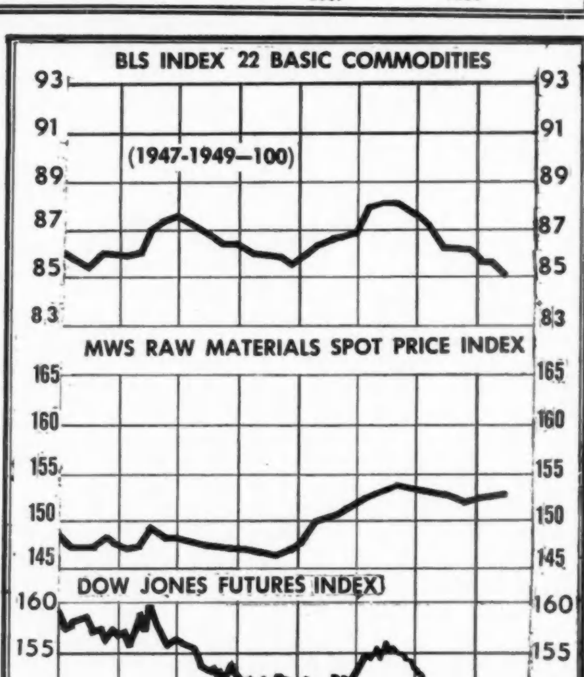
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	154.1	166.3	162.2	215.4	98.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.8	214.5	106.4	84.6
Low of Year	145.4	153.8	147.9	189.4	105.9	84.1
Close of Year		156.5	166.5	176.4	96.7	74.3



First Hand Report on Shifts in Defense Spending

(Continued from page 478)

to-surface missile was cancelled in favor of the longer range Hound Dog (North American). The latter when mounted on the B-52 bombers will increase their bombing range and avoid the anti-aircraft defense of the target areas.

The Navy made further savings when the Regulus was canceled. This 1000-mile range air-breathing missile could be fired from a submarine. It was just being put into production by Chance Vought. This company also lost much anticipated future business when the Navy awarded a highly contested contract for a Mach 2 aircraft carrier fighter to McDonnell.

A number of other weapon systems are under review. A "financial freeze" has been placed on some of them until a final decision is made. The total cost which includes such items as base construction, maintenance, personnel required, transportation, storage, etc., will be a vital factor in the final decision.

Space Program

However, many industries will be benefitted by the expenditures for spaceships. Many of the projects will run into hundreds of millions. The National Aeronautics and Space Agency will have a budget of nearly $1 billion for these efforts.

An indication of what the nation may expect in space exploration comes from a review of House Astronautic Committee. A summary of the report shows that these space flights may be expected in the "next few years":

► Orbit satellite payloads of 10 000 pounds at 300 miles altitude.

► Orbit satellite payloads of 2 500 pounds at 22,000 miles altitude.

► Impact 3,000 pounds on the moon.

► Land, intact, 1,000 pounds of instruments on the moon.

► Land, intact, more than 1 000 pounds of instruments on Venus or Mars.

► Probe the atmosphere of Jupiter with 1,000 pounds of instruments.

Place a man, or men, in a satellite orbit around the earth and recover after a few days of flight.

The report added that Russian missile makers probably will be able to do the same things — and "perhaps more" — in the next few years. And it predicted as a reasonable assumption "that the Soviets will soon announce the 'successful' return of a human passenger from a rocket flight."

The fairly well tested Atlas and the still unknown Titan intercontinental ballistic missiles are among the vehicles that have major space capabilities.

But before any vehicle now on the shelf or on the drawing board can handle tasks such as these, much work will have to be done.

All of these and other feats can be accomplished by starting with basic rocket vehicles now in development in this country. None however, will come from the ballistic missile programs directly. All require additional work of a very substantial nature.

A $15 million initial contract just negotiated with McDonnell by the NASA will be for the capsule in which a passenger ultimately will ride in the nation's first manned satellite. This is designated Project Mercury.

The contract to be let later is for the Air Force's Dyna-Soar Project. This vehicle is intended as a globe-circling man-carrying device which will have the characteristics of both an orbiting satellite, and an airplane of hypersonic speed.

Twelve firms submitted bids to the NASA to design and build the space capsule, on the basis of specifications set forth by the organization at a meeting of 38 missile manufacturing and research organizations last November.

The space agency already has assigned a contract for developing a 1.500,000 pound thrust rocket engine to be used in firing the man-carrying satellite into space. The cost of that phase of the program will exceed $200,000,000, the agency estimates.

Rocketdyne Division of North American Aviation, Inc. is designing the super-powerful engine which will use a single chamber for burning liquid fuel. An engine of this design and thrust, says NASA can be used to launch into space, payloads weighing several tons.

Although fired by a rocket booster, similar to a satellite or space vehicle, the Dyna-Soar's flight will be controlled by the pilot. He is expected to travel from the outer edge of the atmosphere, at speeds of many thousands of miles an hour down into the dense air of earth.

The Air Force looks upon Dyna-Soar as a project having high military value. Such a vehicle could combine the high speed of a ballistic missile with the accuracy of a manned bomber.

Because of the complexity and cost of the project, the Air Force asked that teams of contractors rather than single firms submit design proposals.

Thirteen companies, formed into two teams, have entered into this highly competitive effort to win the contract that may approach a billion dollars.

The Air Force chose the Martin Company and Boeing Airplane Company to head two groups in drafting blueprints for Dyna-Soar and has indicated that a decision between the two teams would be made this winter or spring.

The Martin team includes Bell Aircraft Corporation, American Machine and Foundry Company, Bendix Aviation Corporation, Goodyear Aircraft Corporation and Minneapolis-Honeywell Regulator Company.

The Boeing combine embraces Aerojet-General Corporation, Chance-Vought Aircraft, Inc., the Missile division of North American Aviation, Inc., Ramo-Wooldridge Company, General Electric Company, and Automatics of North American Aviation.

The time when man will ride aboard either the Mercury satellite or the Dyna-Soar vehicle is several years in the future.

Before these programs are ready, an American pilot will be probing into the edge of space in a vehicle more nearly resembling a conventional airplane than a vehicle depending on centrifugal force and orbit for its flight.

Preliminary tests of the X15 rocket plane designed ultimately to fly at altitudes of perhaps two or three hundred miles, and at speeds of as much as 4,000 miles

an hour, are scheduled during the next month or two.

The X15 is designed by North American Aviation and a group of rocket engine, intertial-guidance equipment and other manufacturers.

First test of the X15 will involve dropping it from a bomber to try out glide and control characteristics. Powered flights will follow.

However, in the early powered flights, the X15 will be kept well under its designed speed and altitude. Air Force and NASA officials do not expect any actual probes into the fringes of space for many months. END

How Reynolds Metals Won Control of British Aluminum

(Continued from page 464)

company's ingot production in 1957 was 37,400 tons; for 1958 it was 72,800 tons, and for 1959, 118,000 tons. This would appear to be sufficient for the company's present fabricating capacity of 100,000 tons and relieve it of the need to buy ingot metal from outside suppliers.

In addition the company in association with the Australian Government and Consolidated Zinc Corp. has been exploring hydro-electric developments in Papua and bauxite deposits in northern Australia. Exploration work has been very satisfactory. In West Africa the Company has taken part in establishment of FRIA, an internationally owned alumina producing company whose product will be shared between its stockholders in proportion to their stake in it.

So much for a brief summary of the company's position. It is not unimportant. Total assets at the end of 1957 were $118 million. Working capital was $35.4 million. Net property was carried at $38.8 million and investments in allied companies and unconsolidated subsidiaries at $29.2 million. The ratio of current assets to current liabilities was good, about 3.5 to 1.

Yet, by comparison with giant Alcoa or Reynolds, the company ranks small though hardly deserving comment in the London Financial Times that "The fight for control appears so far as size is concerned to be a straightforward fight between two giants for one of the industry's relative pygmies." British Aluminium has an acknowledged position. It manufactures excellent products. Its specialty "Super Purity Aluminium" is exported to this country. Its sales distribution is principally in the United Kingdom which has a per capita consumption of the light metal second only to the U. S. and Canada. On the Continent per capita consumption lags far behind but unquestionably the rate can expand rapidly. The sales promotion efforts with which Reynolds has been so successful could bear equal fruit with a new approach abroad.

And Now Looking Ahead

Again, the Canadian British Aluminium subsidiary in Quebec has great future earning potential. Like Alcan installations, it will use cheap hydro-electric power and new sites for hydro power are not had for the asking.

Considered strictly on a market price basis for the stock, British Aluminium at $10.90 per share, selling about 22 times earnings, and yielding about 3 percent pretax, does not seem on the bargain counter, but nevertheless makes a favorable comparison with Reynolds stock with its P-E ratio of about 25, and a dividend yield of less than 1 percent.

But it appears the main reason that instigated both Alcoa and Reynolds to reach for the British company was the urgent need to cultivate foreign markets, heretofore dominated by Alcan among the North American producers. The combined sales of all foreign operations in which Reynolds has a whole or partial interest in 1957 exceeded $40 million a year while consolidated sales were $446.5 million. Sales abroad thus constituted only 9 percent. Reynolds has been upping production. It is completing its new 100,000 ton capacity plant at Massena and with its opening the company will have a primary capacity of 701,000 tons a year compared with 601,000 in mid-1958. The company of course is not alone in its expansion and it is estimated that total productive capacity by all U.S. producers will reach 15 per-

cent over 1958, this year. With the present operating rate well below capacity, it appears doubtful indeed if domestic demand in 1959 will be high enough to employ all the new facilities to be completed this year without looking abroad for further sales.

Prospects for AUTO Industry

(Continued from page 481)

levels of around 56 million to 70 million or more by 1975.

A price on Detroit's new small cars that is somewhat competitive with that of small foreign cars is necessary if Big Three auto producers are to achieve a volume on the new compact cars that is sufficiently large to assure success for the ventures.

It still remains to be seen how well the new compact cars will compete for the so-called "snob market"—the rather large middle-income group which has been buying imported cars for "prestige". The Big Three still do not know whether their compact entries wil have strong appeal for those buyers who have selected foreign cars not only because they were small and economical, but because of the "glamor" of an imported name. Also unknown is what immediate effect announcement of imminent production of small cars will have this year on larger cars' sales.

For the near future, however, it appears that if the Big Three can register a gain of 10 to 15 per cent over last year's production, that they will show a good rise in profits. A gain of 20 per cent over last year's production by the industry of 4,250,000 units would mean a total of 5.1 million cars for 1959.

To this total must be added the 400,000 foreign cars which are likely to be sold in the American market this year, making total auto sales in this country for the year of 5.5 million.

On a gain of 20 per cent in volume, profits of car makers could rise fully 40 per cent—unless the new small cars tend to dilute profits in the second half of the year.

General Motors, which reported a net profit of 85 cents a share in the fourth quarter of 1957, should come close to equalling that performance for the fourth quarter of 1958. Hampered by a three week's strike, General Motors was not able to make as good a showing in this quarter as Ford, which settled quickly with the auto union and avoided a damaging work stoppage.

For the first nine months of last year, GM showed a net profit of $1.39 a share, against $2.14 in the same period of 1957. But GM's fourth quarter, best of the year, should bring its net for 1958 over dividend requirements of $2 a share.

This year, if GM scores a gain of 20 per cent over 1958's subnormal volume, its profits should rise to around $3 a share. There is also a chance that GM will increase its share of the market at the expense of its competitors, on the basis of more aggressive styling, although it is too early as yet to tell whether this will be accomplished. But General Motors earnings are well below the 1955 peak, while the stock has been selling close to its all-time high.

Ford's comeback in December brought its output for the month to 173,656 cars—well below GM's total of 333,933 for the month. But it was Ford's best month since March, 1957 Added to Ford's good output in November, it meant that Ford's performance in the fourth quarter would probably pull the company out of the red. In the first nine months, Ford showed a deficit of 30 cents a share. Net profit for the fourth quarter should be well over $1 a share. Ford has greater leverage than General Motors. This means that on a production upturn, output per share of stock rises more rapidly than it can in the case of General Motors.

Ford, has been working hard to try to correct the poor sales position of its medium and high priced cars. This includes Mercury, Edsel and Lincoln. This is an unprofitable end of Ford's business, and despite the upturn, volume in these cars remains subnormal.

Ford, however, has met this situation by creating the new Mercury-Edsel-Lincoln Division, reducing overhead and trimming costs wherever possible by the consolidation of staff and production. It remains to be seen, how-

ever, what Ford can accomplish in the medium priced field, particularly when the new compact cars make their appearance and intensify the already stiff competition which medium priced cars like Edsel and Mercury are receiving from such cars as Chevrolet's Impala, and Ford's own Fairlane 500 and the new Ford Galaxie.

Chrysler has been hard hit production-wise by strikes throughout the fourth quarter. What should have been the most profitable period in over a year has turned out very disappointingly. Chrysler output of cars in December totaled only 41,000 units, less than November's 62,944. On this basis, Chrysler, which showed a deficit of $5.81 a share in the first nine months, may have stayed in the red in the fourth quarter. But it should face a much better situation in the first quarter. Many of its dealers still must be stocked with cars and this will assure good output through February or March. Chrysler like Ford, has better leverage than General Motors, and in an upward cycle could make more rapid gains per share of stock outstanding.

American Motors made the most dramatic showing of the auto industry in 1958. In its fiscal year ended last Sept. 30, American Motors made a profit of $4.65 a share, against a deficit of $2.12 a share in the preceding fiscal year.

But American Motors will shortly be facing a new situation. Its remaining tax credit of $21 million will probably be used up in the quarter ended Dec. 31, 1958—first quarter of its fiscal year. Gross profit henceforth will be subject to the full 52 percent corporate tax. But George Romney, President of the company, says that American Motors will make more money after taxes in the current fiscal year than it did in the 1958 fiscal year when it paid no income taxes.

American Motors must also face the new competition from Big Three compact cars later this year. That this will be rugged competition is certain. There is a likelihood that Big Three compact cars will be priced somewhat under current prices of comparable Ramblers of the American Motors line. If this happens, American Motors will have to meet this competition. Its profits may decline and its break even point may go up.

Romney says American Motors is currently planning a volume of 350,000 for 1959, nearly twice its total for 1958. He asserts that American Motors would be able to return to a volume of 120,000 a year and still break even. But American Motors does not know at what level General Motors and Ford will price their new compact cars. If the price is set at around $2,000 f.o.b. Detroit, Rambler would not be undersold measurably. But every dollar under that price would be felt keenly in profits, not only by American Motors, but possibly also by GM, Ford and Chrysler.

Studebaker-Packard's comeback with Lark has started well but it is too early to appraise its results. The company is trying to rebuild its dealer organization. It still has a long way to go before it reaches the state of selling effectiveness which American Motors has achieved. The latter has franchised many Big Three dealers who are "dualing" Ramblers along with Big Three cars. These dealers are a big factor in Rambler's comeback.

Studebaker-Packard's non-automotive diversification moves remain a question mark. The gains in output made possible by the Lark, enabled company to break even in November and December. But a further test will be needed before it can be said Studebaker-Packard is out of the woods. END

Pressing need to halt duplication of costly research

(Continued from page 467)

mined by officials not concerned with the profit motive. In this area, accordingly, waste and duplication should be at a minimum.

But recent news reports are hardly reassuring. Early in December the Air Force dropped the Rascal, a bomber-launched, 75-mile missile manufactured by the Bell Aircraft Company of Buffalo, after expenditures of $374 million on this project. The Rascal is to be replaced by the Hound Dog, which has a range of several hundred miles.

Again, on December 14, the same branch announced abandonment of the Wild Goose, a decoy missile, on which $75 million had been spent for research, development and production. This also involved the cancellation of the J-83 engine, to power the Goose, in which an investment of $58 million had been made. Both missile and engine had been produced by the Fairchild Engine Corporation of Hagerstown, Maryland, which was obliged to lay off over 2,000 employees as a consequence.

A few days later the Navy cancelled a $100 million dollar contract with Chance Vought for the Crusader III jet plane when it decided to standardize upon a competing plane made by McDonnell Aircraft Company. And only the following day the Navy dropped the Regulus II guided missile, also made by Chance Vought, in which it had invested $78 million. The development of this missile was, according to Chance Vought President Detweiler, "more than 90% complete."

What Price Cancellations?

It is admitted that research is often little better than a gamble, and certainly cannot be evaluated in the same way as other services. Nevertheless, the series of cancellations just described is particularly disturbing for several reasons. First of all, the total of the contracts abandoned — $685 million — was gigantic, even in this inflationary era. This amount represents perhaps 7% of all research expenditures last year, and is more than double total medical research expenditures of $338 million in 1957 by both the government and private companies.

Secondly, the projects mentioned were substantially completed. The research had been proved effective. It can be argued that the results were merely rendered obsolete by other, more promising developments, *but as the competing projects were carried on simultaneously it is hard to avoid an inference of poor planning.*

Finally, after abandonment of these projects was announced, in some cases senators and representatives intervened in an effort to obtain reconsideration. Very obviously, their chief concern

was with payrolls and employment in their districts. Such open political pressure suggests that research projects may also have been influenced by political considerations at an earlier stage.

Central Control Needed to Cut Costs

The magazine "Science" explained in a recent issue, with particular reference to space research, that research direction may suffer from two opposite conditions: the entire absence of any central organization, in which case many participating laboratories may all be carrying on variants of the same experiment; or an absolutely centralized organization, resulting in very few experiments getting started because of prolonged effort to discover the best way of conducting any given experiment. "The Armed Services together with the Department of Defense," the magazine commented, "produced a set-up that managed the singular feat of erring in both directions at once. Competition among the Army, Navy and Air Force resulted in wasteful duplication, while the Defense Department's efforts to control duplication resulted in costly delays."

Steps Toward Coordination

Fortunately, there are indications of improvement in this picture. The recent establishment by Congress of the National Aeronautics & Space Administration, over the strong opposition of the Armed Services, may merely transform the present rivalry among Army, Navy, and Air Force into a sharper dispute between the military and civilian departments, but should still reduce one of the most flagrant sources of duplication at present. Even more encouraging is the President's nomination, on December 28, of a new Council for Science and Technology, to coordinate all government-conducted or sponsored research. This appointment met one of the recommendations submitted by an 18-member Scientific Advisory Committee, headed by Dr. James Killian, President of Massachusetts Institute of Technology. in its report submitted after a ten-month study of the United States' scientific effort. This report, which clearly recognized the lack of integration and direction in the national research program to date, also proposed the strengthening of research at government laboratories, a "critical examination" of government-financed research in outside laboratories (in which 60% of the federal research dollar is currently being spent), and the encouragement of private organizations to take on larger scientific projects. As Dr. Killian was also appointed chairman of the Council, a genuine effort to carry out these recommendations can be expected.

It should not be fondly imagined that any merely organizational changes can automatically correct all deficiencies in our national research program. Certain problems are inherent in all research, and within the government it is doubtful whether political influences can be completely eradicated. Nevertheless, it is clear from the authorities just cited that proper direction does have much to do with both the costs and the results of research. It is still too early to be looking for accomplishments by the new Scientific Advisory Committee, but at least a beginning has been made. While the average citizen may have little understanding of higher research, he can also contribute to its efficiency by resisting political interference and demanding an emphasis upon results rather than upon credit for some particular department or agency. END

Contrasting Prospects for Insurance Companies

(Continued from page 483)

producers. Action along these lines and in the direction of "economy plans" for automobile liability insurance has been required as a result of increasing competition from so-called "direct writer."

While the fire and casualty companies have by no means found complete solutions for all their problems, it does appear that the worst of the under writing loss period is behind them and that there are grounds for expecting contiued moderate improvement in underwriting experience in 1959.

Before turning to an appraisal of the position and prospects for

For A Detailed Study On What 1958 Earnings Reports Reveal See Our Next Issue: February 14, 1959

Data on Leading Fire and Casualty Insurance Company Stocks

	Net Invest. Income Per Share 1957	Net Invest. Income Per Share 1956	Premium Written (Millions) 1957	Premium Written (Millions) 1956	Market Price 12/31 1957	Market Price 12/31 1958	Present Dividend Rate	Yield	Price Times Net Investment Income	Estimated Liquid. Value 6/30/58	Combined Loss and Expense Ratio First Nine Months 1958	Combined Loss and Expense Ratio First Nine Months 1957
Aetna Insurance	$6.23	$6.02	$150.1	$149.7	47¾	77¾	$2.60	3.34%	12.5	$122.57	102.9½	105.5%
American Insurance	2.00	1.98	174.2	177.2	19⅞	27⅛	1.30	4.79	13.6	34.34	103.6	112.0
American Re-Insurance	2.96	2.57	36.2	33.4	25¼	44[1]	1.45	3.30	14.9	45.35[5]	N.A.	97.9[7]
Boston Insurance	2.63	2.58	60.0	51.0	28¼	34¼	1.80	5.26	13.0	50.24[5]	105.9	108.1
Continental Casualty	3.86	3.40	298.4	292.7	72½	110	1.40	1.27	28.5	70.69	98.4	101.6
Continental Insurance	3.62	3.09	3.21.7	142.4	45	61¾	2.00	3.24	17.1	74.25[6]	105.8	109.9
Federal Insurance	1.58	1.55	63.5	55.2	38½	60	1.00	1.67	38.0	38.23[6]	92.7	95.5
Fireman's Fund	3.83	3.61	215.7	216.2	43¾	58¾	1.80	3.06	15.3	69.24	102.2	104.3
General Reinsurance	5.34	4.76	45.8	44.0	42¼[2]	71	2.00	2.82	14.6	79.04	94.1	98.1
Glens Falls Insurance	2.60	2.47	80.7	76.4	25¼	34½	1.00	2.90	13.3	51.67[6]	102.4	105.0
General American Insurance	3.51	3.51	146.5	135.1	30¼	45¾	1.50	3.28	13.0	61.49[5]	104.5	109.5
Hanover Insurance	3.76	3.36	35.4	30.7	29½	43	2.00	4.65	11.4	67.20[5]	107.9	108.0
Hartford Fire Insurance	8.34	7.78	388.4	360.7	127	186	3.00	1.61	22.3	149.70[5]	99.6	101.0
Home Insurance	3.68	3.54	231.3	237.6	34⅝	46	2.00	4.35	12.5	78.11[6]	104.6	107.6
Insurance Co. of Nor. Amer.	4.95	4.72	322.7	288.4	91	135	3.00	2.22	27.3	104.29[6]	100.2	101.3
Maryland Casualty	2.57	2.39	119.0	113.7	28¾	40⅝	1.50	3.69	15.8	42.30	102.0	106.9
Mass. Bonding & Insurance	3.87	3.86	39.6	37.1	28¼	39	1.60	4.10	10.1	49.86[5]	107.6	97.0
National Union Fire Ins.	3.95	3.77	44.6	40.5	27	40¼	2.00	4.96	10.2	65.42	106.1	107.4
New Amsterdam Casualty	7.18	6.42	92.1	85.5	37	46¼	1.90	4.11	6.4	86.89	111.5	106.5
New Hampshire Fire Ins.	4.11	4.00	36.8	33.6	36	43	2.00	4.65	10.5	87.84	103.7	99.9
Northern Insurance	5.69	5.35	41.1	33.0	36	43½	1.50	3.45	15.2	65.05	102.6	100.0
Phoenix Insurance	6.01	5.81	95.3	82.5	53¾	77¾	3.00	3.86	12.9	127.01[5]	110.3	107.0
Providence Washington Ins.	2.49	2.47	23.7	23.8	12	22¾	.60	2.63	9.1	36.11	103.6	106.9
Reliance Insurance	4.37	4.23	56.4	55.9	32½	50¼	2.20	4.38	11.5	77.53	106.0	109.2
St. Paul Fire & Marine Ins.	2.02	2.06	138.6	123.3	43¼[3]	59	1.20	2.03	29.2	40.10[6]	97.9	103.3
Springfield Fire & Marine Ins.	4.44	4.30	58.5	54.7	17⅞[4]	34¼	1.00	2.92	12.9	59.86[6] [5]	105.1	109.9
Standard Accident Insurance	5.26	4.86	74.2	65.1	42¾	58½	2.00	3.42	11.1	85.25	106.5	109.2
U. S. Fidelity & Guaranty	5.15	4.75	250.1	230.8	55½	81¼	2.00	2.46	15.8	80.68	101.2	105.9
Westchester Fire Insurance	2.22	2.11	27.6	26.6	26	32	1.20	3.75	14.4	45.84[5]	100.6	102.7
Average of 29 Companies								15.6	3.39%		103.2%	105.0%

1—A stock dividend of 25% is proposed in Jan. 1959.
2—Adjusted for 10% stock dividend paid in 1958.
3—Adjusted for 15% stock dividend paid in 1957.
4—Adjusted for common stock dividend of 3 for 7 and preferred stock dividend of 1 for 10 common, both paid in 1958.
5—At 12/31/57.
6—Does not include additional equity in Life Insurance affitinte.
7—Full year 1957.

the stock life insurance companies, it may be well to comment upon the following factors of other than an underwriting nature which have been significant in 1958 fire and casualty insurance developments:

Investments Aspects

1. The investment trust aspect of fire and casualty insurance companies has moved ahead along with the recovery in general business conditions and in the market prices of stocks. In computing liquidating values for insurance stocks, their equity holdings are valued at market and their bonds are carried at amortized cost. The rise in the stock market has meant increases in estimated liquidating values for most fire and casualty insurance company stocks.

2. Net investment income represents a large part of the total net operating earnings of most fire and casualty insurance companies and is usually the sole source of dividend payments to stockholders. *Net investment income has been rising steadily as interest rates have moved up and as increases in dividend income have been received. During the period of unsatisfactory underwriting results, most fire and casualty insurance companies postponed action along lines of raising dividend rates until such time as the underwriting department showed signs of improvement. Thus, with net investment income rising and dividend rates remaining stationary, percentage pay-out rates have declined in several instances to well under 50%.*

Late in 1958 such companies as Federal Insurance, Insurance Company of North America, Northern Insurance and Ohio Casualty—to mention a few—did raise their dividend rates, providing a partial recognition of the fact that underwriting results were improving. The two major reinsurance companies — General Reinsurance and American Re-Insurance—declared stock dividends which had the effect of increasing their total cash pay-out. If underwriting earnings continue to improve in 1959, as expected, there should be a fairly long list of additions to the number of fire and casualty companies raising their dividend rates next year.

3. The trend toward combinations of fire and casualty insurance companies and life insurance companies to achieve multiple-line insurance coverage persisted in 1958 and is expected to continue into 1959. Last year there was a joining of forces of

Springfield Fire & Marine Insurance Company with Monarch Life Insurance Company of Springfield and a plan was announced for the acquisition of stock of Columbian National Life by Hartford Fire Insurance Company.

Life Insurance Companies

While the contrast between the position and prospects of life insurance company stocks today and a year ago is not as great as it is for the fire and casualty stocks, the percentage rise in life stocks has been even greater than for the fire casualty group. This is all the more surprising since the rise in the life stocks has been from a higher plateau than the depressed level which fire and casualty stocks reached a year ago. In answer to the question of why the life stocks have performed so outstandingly in 1958 and give promise of continuing to do well in 1959, the following points might be made:

► *The basic factors most significantly influencing earning prospects of the life insurance companies have continued to be favorable to them.* These include further growth in the volume of life insurance in force, gains in mortality rates (in other words, longer life spans for policyholders), and further improvement in the rate of return earned on investments. Preliminary estimates indicate that total life insurance in force in the United States will show about a 7½% gain in 1958 over the previous year and that ordinary life insurance in force may show an even larger rise of 8.8%. Mortality experience, while adversely affected early in 1958 by delayed reactions from the Asiatic influenza epidemic of the previous year, improved as the year progressed, with the effect that in 1958 the relatively low death rate of 9.6 per 1,000 rate of the previous year was maintained.

For the eleventh consecutive year the average rate earned on investments rose in 1958. It advanced from a 1957 pre-tax figure of 3.74% to an estimated comparable level of 3.85% for 1958. Further gains appear to lie ahead in this percentage if interest rates generally continue to be firm around present levels.

Proposed Tax Changes

► *The question of a new formula for a Federal income tax on life insurance company earnings appears to be on the way towards a reasonably satisfactory long range solution.* Uncertainties still exist in this connection, but the fear of radical treatment which existed early in 1958 when the "total income" approach was first suggested, appears to have abated. It is now generally felt that while the new tax law will provide for a substantial increase in income tax payments by the life insurance companies (from a current industry level of around $300 million to about $475 to $500 million), the law will be fair and not impossible to adjust to. This hope may prove to be not fully justified, but investors seem to be convinced that the solution will be palatable and just the elimination of the uncertainty about taxes will be beneficial.

Insurance Shares versus Industrials

► The rise in the general stock market, reflecting as it does, a belief that a period of business expansion lies ahead, has had a beneficial effect on the market for life stocks. These are basically growth industry equities and when investors anticipate further expansion they may be expected to show a liking for life insurance company equities. It is not difficult to develop figures which will show that while several of the best industrial growth stocks are being valued at better than 25 times earnings in current securities markets, life insurance company stocks as a group are selling at an average of under 17 times adjusted earnings. This is shown in the accompanying table. In computing the adjusted earnings of the life insurance companies, estimates of paid acquisition costs have been added back to earnings in order to provide what is generally considered to be a sound basis for comparison.

Within the past decade there has been a growing investor interest in life insurance company stocks. In addition to individual investors a number of such institutional investors as pension funds, investment trusts and university endowment funds have made substantial investments in these stocks. In addition several fire and casualty insurance companies, as previously mentioned, have acquired all the shares of some life insurance companies. This increasing demand has pressed upon a rather static and small available supply of shares. Since life insurance companies generally supply all of their new capital needs by retention of the major portion of their earnings, they rarely resort to financing by the sale of additional shares. Thus the initially small supply remains small.

► Announcements of stock dividends and stock splits, which are understandably popular with investors, have been quite frequent in the life insurance stock field. This is shown in the accompanying table of life insurance companies. Cash dividend increases also have been announced by a number of life insurance companies within the past year. These developments have dramatized the large earnings retentions by most life insurance companies. These have resulted in building up surplus to a point where recognition is given to the existence of the surplus through payments to stockholders.

Oil and Politics in Strategic South America

(Continued from page 475)

may have done more harm than good. Mr. Haight questioned not only the ethics but also the legality of the increase, stating that many oil companies "will now feel that they have been defrauded" and that the government's measure has resulted in "the destruction of confidence and understanding" on the part of the foreign oil companies. The universal reaction in Caracas to the Creole statement was one of resentment over the fact that a private company had challenged the act of a sovereign government. Charges of "Yanqui-imperialism" and foreign intervention were hurled against the American companies.

Undoubtedly, tempers on both sides will soon calm down. Furthermore, the new President is known to be an intelligent and reasonable man with no intention

to kill the goose that has laid so many golden eggs for his country. In fact, nobody in Venezuela — not even the Communists — are out to abolish the foreign oil industry in Venezuela, either by nationalization or by prohibitive taxes. Thus, if rationalism prevails over nationalism—and there is every reason to assume that it will — American oil companies will continue to enjoy good earnings in Venezuela.

Break-through in Argentina

Outside of Venezuela the most important oil developments in Latin America are currently taking place in Argentina. There, the need for oil development and red-hot nationalism have been on the warpath against each other for a long time. In fact, the most important single reason for the downfall of dictator Peron in 1955 was the concession agreement he had signed with Standard Oil of California. Argentinian nationalists feel that all oil deposits should remain the property of the state and that concessions to private companies, especially foreign ones, represent an abrogation of Argentinian sovereignty. This line of reasoning has influenced Argentinian oil politics for a number of years. Its main expression is found in the government oil trust Y.P.F. which controls all phases of the country's business (with the exception of two small and declining oil fields in the hands of Jersey and Shell, respectively).

The trouble with Y.P.F. is that it has neither the capital nor the know-how to develop Argentina's very large oil potential. Thus, while the country has probably enough of the black gold in its subsoil to fill all its needs and have a surplus left over for export, it must presently import 155,000 barrels of oil daily at an annual cost of $300 million, since its own production supplies less than 40 percent of total demand.

When Peron in his last year in office finally recognized that the drain of oil imports was more than the country could bear, he made the fateful deal with California Standard. Ironically, the man who attacked him most vehemently for giving a concession to a foreign oil company was Arturo Frondizi who is now Argentina's President. As it turned out, Senor Frondizi is not just a gringo-baiting nationalist. He is also quite aware that Argentina's own oil potential must be developed or the country's economic growth will stagnate. Since he could, obviously, not offer the foreign oil companies regular concession agreements, he hit upon a new idea. He had a law passed affirming that all oil was the sole property of the state. Having thus assured his people that no foreign "capitalist vulture" would deprive Argentina of its natural resources, he approached a number of large Western oil companies with the proposal that they develop the oil for Y.P.F. on a *contract* basis.

It is an indication of the great flexibility of the international oil companies that they did not reject this very unorthodox proposal, but sat down and started to negotiate with the Frondizi government. The result of these negotiations is a series of five agreements, each different from the other.

The first agreement was signed with **Pan American International** (a subsidiary of Standard of Indiana). It is essentially a development contract for a million-acre area in Patagonia. The Argentinian government will pay Pan American $1.67 per barrel of oil produced of which 60 percent will be in dollars and the rest in pesos. Pan American has agreed to deliver all oil to the government oil agency and to drill at least 50 wells per year.

The next agreement was signed with the New York investment firm of **Carl M. Loeb, Rhoades and Company**. The firm will spend $100 million to finance the drilling of oil wells in western Argentina. Loeb, Rhoades will receive 50 percent of the foreign exchange saved as a result of the oil and gas produced under the contract, payments to be made in dollars. The firm has already retained Kerr-McGee Oil Industries as its drillers, **Signal Oil and Gas** and **Union Oil & Gas of Louisiana** are also participating in the venture.

A yet different type of contract was made last fall with **Union Oil Company of California**. It covers an area of four million acres on which Union Oil must spend a minimum of $5 million in the next two years for wildcat drilling. The total length of the contract for wildcatting, development and production is for 25 years. Union Oil will receive payment of $2.00 per barrel of oil produced but out of this it must build a pipeline to the coast.

Finally, last month Y.P.F. signed two further agreements, one with **Jersey Standard** and one with the **Royal Dutch/Shell** group. The agreement with Jersey provides for development of a large semi-proven area in the Neuquen province. Jersey will receive approximately $2.00 per barrel, to be paid in pesos and undertakes to build a $23-million pipeline for which Y.P.F. will reimburse it over a 30-year period. The Shell group agreement is largely for wildcatting along the coastal area. Shell is to be reimbursed for all its expenses and will receive half of the profit from any oil production. It is to be paid not in currency but in kind (oil).

The differences between the various contracts reflect largely the differences in the oil potentials of the various areas.

Jersey which takes a relatively small risk, since oil is definitely known to exist on its acreage, will only get a fixed sum in pesos for each barrel of oil produced.

Shell, on the other hand, which undertakes to explore a new area, will be reimbursed for all its expenses and will receive 50 percent of the profits, all to be paid in oil which is probably a sounder currency than the peso.

The importance of the Argentinian contracts lies not only in the boost which they will give to that country's economy. Even more important could be the fact President Frondizi might have found a way by which the super-sensitive issue of nationalism can be taken out of foreign oil contracts. Countries like Brazil and Chile, whose oil potential has only been partially developed by government monopolies, are watching Argentinian developments with great interest. If Frondizi can survive the present heavy political attacks against him and maintain the validity of the new oil contracts, Brazil and Chile, and eventually perhaps even Mexico, are likely to follow his example. END

1959 Import-Export Outlook For American Business

(*Continued from page 473*)

advantage of anticipated market growth in an area with as great a potential as the United States. Investors should not overlook the significance of this action. Profits on overseas operations are considerably higher than in the United States. (See my article in *The Magazine of Wall Street* for October 25, 1958, "Strengthening Your Investment Position Through American Companies with Important Foreign Interests.")

Trade Trends Affecting Investors

In these days of high U. S. income taxes and creeping inflation, it is more important than ever to consider the world trade position of a company before buying stock. With increasing emphasis abroad on economic expansion and raising living standards, the long-run growth opportunities strain the imagination. Investors should consider carefully the types of industries which will profit most from foreign demand in the years ahead. The composition of U. S. exports is constantly changing, and many of the items that did well in the past hold considerably less promise for the future.

Unlike most industrial countries, the United States is a large-scale exporter of raw materials as well as manufacturers. However, the most profitable part of our export trade is fabricated products. In recent years our export sales of primary commodities have been somewhat erratic, and largely sold under programs of government subsidy and surplus disposal.

In the case of cotton, for example, exports in the past several years have fluctuated between the extremes of 2 and 7½ million bales annually, while wheat exports have varied from about 200 to 550 million bushels. Corn, rice, tobacco, and dairy products are other commodities being sold abroad, not for a profit, but at considerable loss to the U. S. taxpayer under disposal programs. At the same time, these markdown sales have earned us the enmity of our allies and bitter charges of dumping.

In contrast, the United States has demonstrated a most profitable export leadership in the field of mechanically processed, highly fabricated, and mass produced goods. This is where U. S. industrial technology, applied research, and the constant development of new commercial products has paid off. Under this heading we find all types of machinery, electrical equipment, aircraft, vehicles, precision instruments, specialized chemicals, lubricants, pharmaceuticals, and high quality steelmill products.

Most of the leading items in the above categories did not appear on export lists two decades ago. The historical role of the United States is to furnish the machinery and equipment for other countries creating, expanding, or up-dating their own industrial plants. As these overseas industries grow, U. S. exports of many older manufacturers diminish in importance—textiles, hardware, kitchen utensils, small appliances, and even automobiles.

Here are some of the exports that will be leading the list in coming years, with thriving home markets as well. These are the growth lines by any standards, and investors should mark them well:

***Automation equipment** . . . a big potential in the Common Market countries as integration makes feasible mass production in the U. S. manner.

***Electronic needs** . . . computors, business machines, navigation and communication aids. The U. S. is years ahead here and manufacturers can not keep up with demand.

***Atomic generators** . . . and nuclear equipment for research, medicine, and other purposes. We are only on the threshold—this will be a growing market for years to come as foreign countries seek nuclear reactors and special materials.

***Telephone & telegraph apparatus** . . . a tremendous sales potential here as some countries are just beginning to install communications systems and others have equipment badly outdated.

***Photographic supplies** . . . microfilm and recordak needs for business records, movie cameras, industrial photography.

***Pharmaceuticals** . . . rising living standards are creating fantastic sales increases for wonder drugs, antibiotics, immunizers, antitoxins, vitamins, etc.

***Chemicals** . . . growing world-wide consumption of insecticides, fertilizers, fungicides, refrigerants, preservatives, additives, industrial specialties, plastics, synthetics, etc.

***Machinery** of all kinds, the key to the technological revolution . . . earthmoving & roadbuilding, heavy construction, mining, electrical, industrial, and mechanized farm equipment.

Foreign Investment Boosts Trade Earnings

An increasingly profitable aspect of U. S. foreign trade is

represented by direct American investment abroad to provide "U. S. goods" from sources beyond our shores. Since World War II about $22 billion of such private U. S. capital has flowed overseas. About one-third of this is invested in branch plants and manufacturing subsidiaries that produce, according to U. S. standards, trademarked goods which were formerly exported directly from the United States.

As pointed out above, new impetus is being given this type of investment by the European Common Market. Much the same considerations earlier prompted U. S. companies to establish manufacturing subsidiaries within the British Commonwealth to benefit from the imperial preference system. Automobile plants, for example, were set up in Canada and Great Britain by Ford and General Motors in the 1930's.

In effect, U. S. export earnings are also bolstered by American investment in raw material production overseas destined for markets other than the United States. For example, U. S. companies control about half of Middle East oil production, yet only a fraction of this finds its way to the United States. The balance is sold chiefly in Europe, an area that in prewar days relied heavily on oil imports directly from the United States. But we no longer have an export surplus of oil.

A third way in which U. S. overseas investment creates foreign trade earnings for American business is through licensing of patents, formulas, industrial techniques, and other forms of knowhow. Here again "American goods" are being sold abroad, and foreign trade profits repatriated, without actual exports from the United States. The attraction here is that the risk involved and the capital commitment is far less than for establishing foreign branches, yet the net returns are sometimes nearly comparable. Currently, more than 650 American firms are known to have licensing agreements directly with foreign unaffiliated companies. END

For Profit and Income

(Continued from page 485)

Stores around 55, yielding nearly 5.5% on a $3 dividend, by Gimbel Bros. at 38, yielding about 4.7% on a $1.80 dividend; and, in the variety field by Kresge at 33, returning 4.9% on a $1.60 rate, and Woolworth, yielding over 4.2% at 59 on a $2.50 dividend. END

Inflationary Market Continues

(Continued from page 457)

to earnings some years hence. Indicative of the professional touch are the sometimes rapid shifts in stock-group behavior. Investors do not quickly shift in any great way from drugs to electronics to air lines, which is one of the recent professional-flavored sequences of rotation.

The Administration is taking a stronger stand against inflation than ever before. What, if anything, will come of it remains to be seen, since the pressure for inflationary spending centers in the Democrat Congress, and since the labor union monopolies continue to press for inflationary wage boosts. There is nothing inflationary in the indicated supply of, and demand for, materials and goods. Avoid adding to your risks at this market level.

—Monday, January 26.

Book Review

Women and Thomas Harrow

By JOHN P. MARQUAND

John P. Marquand's first major novel since SINCERELY, WILLIS WAYDE is likely to be ranked by discerning people as the equal of WICKFORD POINT and POINT OF NO RETURN. This time the author has turned for inspiration to the world of the theatre, in which he has had personal and frustrating experience. WOMEN AND THOMAS HARROW is a big novel, deeply concerned with the conflict between the creative mind and the inhibiting pattern of worldly success, wryly satirical and humorous with those deft touches for which Mr. Marquand is justly renowned.

The protagonist is Thomas Harrow, a successful, fashionable playwright on the brink of financial ruin, largely through his own fault. The scene, when it is not flashed back to the theatrical world of New York, is Clyde, the old New England town which has been the scene of so many of Marquand's novels, and the beautifully restored Federalist house which is Harrow's special joy. The women in his life are the aunt who brought him up; Rhoda, the local girl whom he first married and never should have left; Laura, the actress, who was a passing fancy and is currently one of the causes of his financial distress; Miss Mulford, his understanding secretary; and Emily, his present wife, a thoroughgoing shrew.

Walter Price, an old friend and marvelous liar, whose morning ritual is to drink a glass of gin while lying in a cold bath, is staying in the house, as is Harrow's son, Harold. The crisis that is impending is due to the collapse of a musical, which Harrow had insisted on producing and backing. Emily wants to leave Clyde, which she hates, and move to Easthampton. Indeed, move she must, because the Clyde house and cars and all the rest will have to be sold to satisfy the creditors. But meanwhile she doesn't know this, and one of the best climaxes of the book is when she is told just before a stuffy dinner party. After this and with appropriate reversions to the present, the whole career of Thomas Harrow is reviewed. At the end he sees Rhoda again, a Rhoda married to a safe future and a stuffed club; and for a moment there seems to be a chance that a fresh start can be made. But Harrow realizes he must face the future alone, for whatever it may hold.

The cast of characters is an unforgettable one, whether the figure is in a minor role, such as Alfred, the colored butler, or the local clergyman, or the boys and the girl from the high-school newspaper, or in a major role – Rhoda and Emily and Walter Price, and Arthur Higgins, the great producer and director. WOMEN AND THOMAS HARROW may well be considered the crowning achievement of Mr. Marquand's literary career.

Little, Brown $4.75

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H—Cities Service
H—Continental Oil
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B. & O.
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L—D. & H.
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H—Gt.Northern
Ill. Central
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L—N. Y. Central
North, Pac.
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L—St. L.-San Fran.
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H—So. Pac.
H—So. Ry.
Union Pacific

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L—Canada Dry
H—Coca-Cola
L—Pepsi-Cola

12—STEEL & IRON
Alleg. Ludlum
H—Armco
Beth. Steel
L—Colo. Fuel & Iron
L—Detroit Steel
H—Inland Steel
L—Interlake
Jones & Laughlin
H—Nat. Steel
H—Republic Steel
H—U. S. Steel
H—Youngstown Sheet

4—SUGAR
L—Cuban-American
Great Western
L—Manati Sugar
L—Vertientes-Camaguey

2—SULPHUR
H—Freeport
L—Texas Gulf

11—TELEVISION & ELECTRONICS
L—Admiral
L—Emerson Radio
L—Gen. Instrument
H—Int. Tel. & Tel.
Magnavox
H—Motorola
L—Philco
R. C. A.
Raytheon
H—Texas Instr.
H—Zenith

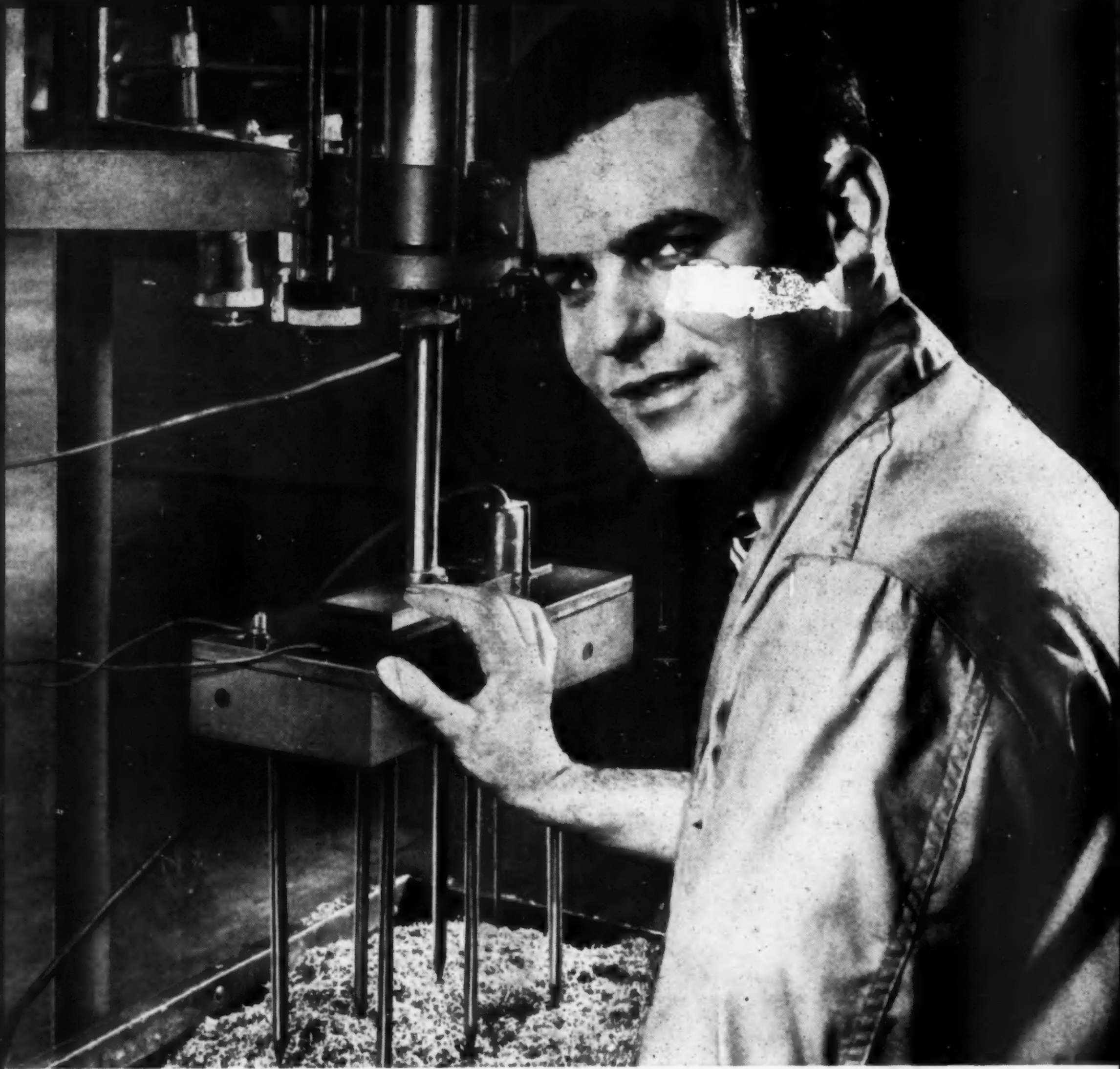
5—TEXTILES
Am. Viscose
L—Burlington Inds.
L—Celanese
L—Textron
L—United Merchants

3—TIRE & RUBBER
H—Goodrich
H—Goodyear
U. S. Rubber

5—TOBACCO
H—Am. Tobacco
H—Liggett & Myers
H—Lorillard
Philip Morris
H—Reynolds Tob. "B"

3—VARIETY STORES
Kresge (S. S.)
Murphy (G. C.)
H—Woolworth

20—UNCLASSIFIED
Am. Bosch
L—Avco
L—Continental Motors
L—Curtis Pub.
H—Eastman Kodak
L—Fawick Corp.
L—Gen. Am. Inds.
L—Graham-Paige
L—Greyhound
L—Heyden-Newport
L—Penn-Texas
L—Pitts. Screw
H—Procter & Gamble
L—Ranco
Rexall Drug
L—Symington-Wayne
United Fruit
L—United Industrial
L—U. S. Inds.
L—United Whelan



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